

ELIMINATION OF GERMAN RESOURCES FOR WAR

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON MILITARY AFFAIRS.

UNITED STATES SENATE

SEVENTY-NINTH CONGRESS

SECOND SESSION

PURSUANT TO

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(78th Congress)

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MOBILIZATION PROBLEMS

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ELIMINATION OF GERMAN RESOURCES FOR WAR

MONDAY, FEBRUARY 25, 1946

UNITED STATES SENATE,
COMMITTEE ON MILITARY AFFAIRS,
SUBCOMMITTEE ON WAR MOBILIZATION,
Washington, D. C.

The subcommittee met at 10:45 a. m., pursuant to call of the chairman, in room 104-B, Senate Office Building, Senator Harley M. Kilgore (chairman) presiding.

Present: Senator Harley M. Kilgore, West Virginia, and Senator Elbert D. Thomas, Utah.

Also present: Dr. Herbert Schimmel, chief investigator.

The CHAIRMAN. The committee will come to order.

The witness this morning is Mr. Russell A. Nixon, former Acting Director, Division of Investigation of Cartels and External Assets, Office of Military Government in Germany (United States).

Mr. Nixon, I believe that you have a prepared statement. Do you want to submit that statement for the record, or would you prefer to read it?

TESTIMONY OF RUSSELL A. NIXON, FORMER ACTING DIRECTOR, DIVISION OF INVESTIGATION OF CARTELS AND EXTERNAL ASSETS, OFFICE OF MILITARY GOVERNMENT IN GERMANY (UNITED STATES)

Mr. NIXON. I would like to submit my prepared statement for the record, and then summarize it as I go along.

The CHAIRMAN. Your prepared statement will be made a part of the record at this point.

(The statement referred to follows:)

PREPARED STATEMENT BY RUSSELL A. NIXON

As you know, Mr. Chairman, I am appearing before this subcommittee as a private citizen. I am not in a position, therefore, to submit for the subcommittee's examination the various official documents and records pertinent to the subject matter of my testimony. I would like to make clear, however, that every statement can be fully supported with documents; and I am sure that the War Department will be glad to submit directly to the subcommittee any such documents which are of particular interest to it.

I. SURVEY OF I. G. FARBNEN CONTROL

In March of 1945, Mr. Chairman, as a soldier I was transferred from an Infantry replacement center in Belgium to the Finance Division of the United States Group Control Council. At first, I served as Chief of the Denazification Section. Subsequently, I acted as Chief of the Division's Financial Intelligence and Liaison Branch; and, finally, when the Division of Investigation of Cartels and External Assets, DICEA, was established on September 12, 1945, I was made one of its Deputy Directors. From the time its Director, Colonel Bernstein, left Germany

on September 24, I served as Acting Director of DICEA. As such, I was appointed acting United States member on the German External Property Commission.

In testifying before your subcommittee in December, Colonel Bernstein described the findings of the I. G. Farben investigation. I should like, at the outset, to bring the Farben story to date by describing briefly the measures taken by our Military Government officials with respect to Farben during the past few months.

As you know, in October 1945 the United States Group Control Council was reorganized into Office of Military Government (United States) and an order was issued setting forth the functions and authority of the several new divisions. The reorganization order, however, did not make any formal organizational arrangements for DICEA. The order merely sanctioned the existence of the Division and indicated that a full statement of its charter would be issued at a later date. Nevertheless, we decided at that time that despite the lack of a formal charter we would hardly be justified in deferring any longer the preparation of our recommendations on what to do with I. G. Farben, the largest single concentration of economic power and war-making potential in the United States zone and in all of Germany.

United States Military Government General Order No. 2 of July 5, 1945, directed the seizure of the possession, direction, and control of I. G. Farben for the following specified purposes:

"4. a. The making available to devastated nonenemy countries of Europe and to the United Nations, in accordance with such programs of relief, restitution and reparations as may be decided upon, of any of the property seized under this order and, in particular, of laboratories, plants and equipment which produce chemicals, synthetic petroleum and rubber, magnesium and aluminum and other nonferrous metals, iron and steel, machine tools, and heavy machinery;

"b. Destruction of all property seized under this order and not transferred under the provisions of paragraph a above if adapted to the production of arms, ammunition, poison gas, explosives, and other implements of war, or any parts, components or ingredients designed for incorporation in the foregoing, and not of a type generally used in industries permitted to operate within Germany;

"c. Dispersion of the ownership and control of such of the plants and equipment seized under this order as have not been transferred or destroyed pursuant to paragraphs a and b above."

Special Order No. 1 of July 5, 1945, appointed a control officer for Farben and, pending the assumption of control over Farben or Farben property by the Allied Control Council, or any of its agencies, directed the control officer, in paragraph 3, to "take forthwith the following interim measures:

"b. Prevent the production by and rehabilitation of plants and equipment seized under said general order [General Order No. 2] except as may be specifically determined to be in accordance with the objectives of the United Nations."

Before our Division could fulfill its responsibility to make recommendations on I. G. Farben, it was necessary to ascertain what had been done to execute the directives set forth in General Order No. 2 and Special Order No. 1 with respect to demolition, reparations, and dispersal of ownership. Accordingly, at the end of October, we approached the Farben control officer, Col. E. S. Pillsbury, stated our position, and requested that arrangements be made for us to obtain the necessary information. Colonel Pillsbury was not altogether satisfied that our jurisdiction extended to internal concentrations of economic power in Germany as distinguished from international cartel arrangements, but he finally agreed to make available any information he had. We then proceeded with our investigation on the basis of the information derived from the central office of the I. G. Farben control officer.

At the very outset of our survey, it became apparent to us that certain differences existed between the Director of the Finance Division, Mr. Dodge, and General Draper, Director of the Economics Division. For example, Mr. Dodge told us that he had been disturbed by the failure to curb Farben's war potential. He was especially concerned over the handling of the Reich-owned Farben-operated Montan plants and had been trying unsuccessfully to close the Anorgana plant at Gendorf, which was built during the war and used exclusively for the production of poison gas. On October 18, 1945, Mr. Dodge had recommended that immediate action be taken with respect to that plant. On November 10, he received a memorandum from General Draper insisting that the plant continue to operate on the ground that certain chemicals which it was capable of producing were essential to the German economy. In like manner, Mr. Dodge

had been unsuccessful in his efforts to have dismantled the Grosskraftwerke underground plant at Mannheim-Rheinau. An order to dismantle the plant was eventually issued; however, it was rescinded almost immediately. Mr. Dodge maintained that I. G. Farben plants were receiving preferential treatment in procuring coal and other supplies and that he had strongly protested against this preference. USFET MAIN, however, refused to take any action on this protest, believing it incapable of substantiation.

Having learned from Mr. Dodge that he, too, had ordered an investigation into the nature and accomplishments of Farben control, we consulted with the Finance Division officials responsible for that investigation, and undertook to make available to them any relevant material in our possession. In view of the fact that they were planning to make an over-all survey, we informed them that we would limit our investigation to the information available in the central records of the control office.

The findings of these two parallel investigations are set forth in two detailed reports both dated December 17, 1945. They reveal not only a complete failure to carry out the order of July 5, 1945, but also deliberate violation of those orders by contrary action.

The records of the central office were wholly inadequate for the control of I. G. Farben field operations. In the central office records, plans submitted by field officers for the disposition, or I should say operation, of individual plants were in many cases prepared by the German managements of the firms in question; and there was no evidence that steps had been taken centrally to discourage the execution of plants which clearly ran counter to the directives.

Our investigation disclosed that of a total of 55 I. G. manufacturing plants in the United States zone, 2 were destroyed and 3 had been declared available for reparations and destruction. None of the I. G. Farben-owned or affiliated plants had been eliminated—either by destruction or by making them available for reparations. All of the five plants eliminated were Montan Reich-owned plants. Fourteen of such plants were built by the Reich in the United States zone shortly before or during the war and were operated by Farben for military purposes.

We discovered also that almost every one of the I. G. Farben plants in the United States zone was operating. Capacity added during the war exclusively for war production had been brought into operation for the production of so-called peacetime goods without any indication as to the need for such production and without any proof that the particular goods could not be provided by other plants which normally produced those goods previously in the past.

Partial explanation of the failure to carry out the directives with respect to reparations, demolition and dispersal of ownership may be gathered from a memorandum written by Colonel Pillsbury to Mr. Dodge on November 5, 1945. In the memorandum Colonel Pillsbury indicated that the accomplishment of the objectives mentioned by Mr. Dodge had not been, and I quote, "practicable." Colonel Pillsbury stated that no disposition of the plants could be made because title had not been vested by the Control Council. The investigation of the Finance Division, which I will discuss shortly, indicated, however, that dismantled equipment in Reich-owned, Farben-operated plants which had been listed for destruction had been shipped or labelled for shipment to Farben-owned plants. In other words, legal technicalities were used to justify the failure to remove anything from Farben plants but were not even considered in moving equipment from Reich-owned plants into I. G. Farben. The effect is that I. G. plants and their war potential are being rebuilt with equipment from the Reich-owned plants marked for reparations and destruction.

DICEA's surveys also analyzed replies, which by the end of November had been received from 32 I. G. manufacturing plants to a questionnaire issued July 27 for the purpose of "eliciting information and recommendations upon which to formulate a program." Only 9 plants were reported as available or "possibly" available for reparations in whole or in part. The reports tended to write-off the war potential of each plant; and there was a marked disposition to emphasize the peacetime uses for which wartime capacity could be used and to claim that the capacity was essential to the peacetime economy of Germany. This emphasis prevailed both in the case of the few plants reported available for reparations and also in the case of the much larger number of plants not declared available for reparations. In some cases, it was even stated openly that the particular plant was more valuable as an operating concern than as a source of reparations. This, notwithstanding the fact that United States and Allied policy is committed to the elimination of Germany's industrial war potential and to providing reparations

in the form of equipment, particularly from the industries in which I. G. Farben plants are dominant.

DICEA further reported that no effective action had been taken to decentralize Farben and disperse its tremendously concentrated power. For example, there is a constellation of plants centered largely around Hoechst, the largest I. G. Farben plant in the United States zone. It was claimed that the operation of these plants had to be integrated. This reported need for integration is based upon purchasing or sales advantages, despite the fact that there is an assured market for the production of the plants. Of all factors, these clearly should be given no consideration in executing a serious policy determination to destroy I. G. Farben, and are absurd when advanced as reasons for failure to do so. The reasons given for maintaining integrated operations in Hoechst were also advanced in the case of eight other plants, all of which produced great quantities of military supplies during the war. The boldest statement supporting a vertical trust as a necessity was made in the case of Steedener Kalkwerke. The argument ran thus: The Steedener Kalkwerke has very extensive new installations, erected specifically to meet the burnt-lime requirements of the synthetic-rubber plant of I. G. Ludwigshafen. The plant can, therefore, operate economically only if it produces to the extent of normal capacity. To justify operation, it is necessary that the plant be guaranteed continuous large-scale demand for lime. Only the larger chemical works have such a demand. Thus to assure a normal and profitable production, the best arrangement would be direct combination with a big chemical work. The plants which are particularly in need of lime on this basis are all former I. G. Farben-industrie plants:

Ludwigshafen----- For carbide production, for insecticides, and for lacquers.

Hoechst----- For production of artificial fertilizers.

AG für Stickstoffdünger, Knapsack. For carbide production.

A similar connection with the steel industry is possible, although this plant is equipped to produce a higher grade lime than is necessarily required by the steel industry.

As I have previously indicated, the survey conducted independently by the Finance Division corroborated in almost every detail the findings of our DICEA survey. The report of the Finance Division stated that there were at least five distinct indications of the regrowth in the United States zone of Germany's greatest single instrument of economic aggression. First, the report noted that with the exception of most Montan plants and those plants damaged in the war, there were no discernible limits on production in Farben plants, except the limits imposed by shortage of materials, and all requests for production authorizations were approved without exception. These production schedules, according to the Finance Division, were prepared for each plant by the German management and were automatically approved by responsible Military Government officials of the Economics Division except in cases where these officials proposed higher production schedules.

The second evidence of Farben's regrowth cited by the Finance Division was the fact that Farben control has followed lines prescribed before the end of the war by Farben officials themselves as an adaptation to the facts of the defeat and occupation. This conclusion was based in part upon a letter from Max Ilgner, one of Farben's key officials, written in May 1944 while under detention, to two of his associates in the Farben Central Finance Department. He instructed them to keep in as close touch as possible with one another and with other Farben leaders. He predicted that the American authorities would eventually permit resumption of I. G. operations and stressed the need for keeping the organization alive in expectation of this development.

A similar example of Farben's determination to survive military defeat is the fact that a German by the name of Orth, who had been the Farben sales manager for Bavaria for many years, prepared for I. G. Farben a program for postwar reconversion in the event of Germany's defeat. Today Orth resides in Munich and is again the sales manager for the Bavarian plants, including Gendorf. Orth stated that he was working with the Bavarian Ministry of Economics to install a new power plant at Gendorf to reduce costs there. In general he was satisfied with his relations with military government officers and felt optimistic about future developments.

Other conclusions in the Finance Division's report point to evidence that lines of connection among the now supposedly independent I. G. plants are being re-established in part through the natural interdependence of plants in the chemical

industry, but in part through the design of Farben leadership; that dismantling and demolition in Farben-owned affiliated and operated plants have thus far been on an extremely limited scale; and, finally, that some materials, office furniture and equipment are being returned to other Farben plants—a form of Farben restitution which appears to be taking precedence over restitution to Allied Nations and which is facilitating the reconstruction and regrowth of the I. G. Farben trust.

That these developments run counter to established American and quadripartite policy is quite clear. They are violations of the directives of July 5, 1945, and they are violations of the document which those directives purported to implement, namely JCS 1067. Paragraphs 7 c. and 7 d. of JCS 1067 stated:

"7 c. You will seize or destroy all arms, ammunition and implements of war and stop the production thereof.

"d. You will take proper steps to destroy the German war potentials as set forth elsewhere in this directive."

Paragraph 32 of JCS 1067 stated:

"32. Pending final Allied agreements on reparation and on control or elimination of German industries that can be utilized for war production, the Control Council should

a. prohibit and prevent production of iron and steel, chemicals, nonferrous metals (excluding aluminum and magnesium), machine tools, radio and electrical equipment, automotive vehicles, heavy machinery and important parts thereof, except for the purposes stated in paragraphs 4 and 5 of this directive; [these purposes in brief, were mainly concerned with protecting the safety and meeting the needs of the occupying forces and assuring the production and maintenance of goods and services required to prevent starvation or such disease and unrest as would endanger those forces].

b. prohibit and prevent rehabilitation of plant and equipment in such industries except for the purposes stated in paragraphs 4 and 5 of this directive; and

c. safeguard plant and equipment in such industries for transfer on reparation account."

Not only has the production of the enumerated items not been prohibited, but there has been affirmative action to rehabilitate Farben plants and Farben equipment; and operation of the rehabilitated plants has been used as a reason for barring the transfer of their equipment as reparations.

Paragraph 33 of JCS 1067 provides:

"The Control Council should adopt a policy permitting the conversion of facilities other than those mentioned in paragraphs 30 and 32 to the production of light consumer goods, provided that such conversion does not prejudice the subsequent removal of plant and equipment on reparation account and does not require any imports beyond those necessary for the purposes specified in paragraphs 4 and 5 of this directive. Pending agreement in the Control Council, you may permit such conversion in your zone."

This directive, too, has obviously been violated. In handling I. G. Farben, United States administrators have been concerned chiefly with finding out where it would be possible to convert war capacity to the production of medicines, dyestuffs, and other civilian goods. Capacity which had never been used for any other but war purposes has been converted to such use, as at Gendorf. Yet I. G. Farben with a much smaller capacity before the war exported two-thirds or more of its total output of such products, showing how limited are Germany's normal, civilian requirements.

When Mr. Dodge submitted the report of the Finance Division to General Clay, it was accompanied by recommendations addressed to General Draper and to Colonel Pillsbury. These recommendations briefly summarized were as follows:

I. All wartime additions to I. G. Farben-owned, affiliated, or operated plants shall be declared available for reparation or destruction and shall be dismantled.

II. All I. G. Farben-owned, affiliated, or operated synthetic rubber and metals plants will be set aside and immediately dismantled.

III. Non-Farben plants will be given priority in production. (Farben production and production capacity were to be further reduced or eliminated according to a specified formula set forth by the Finance Division.)

IV. In all plants set aside for dismantling, all underground installations and all installations used for key equipment such as power equipment, will be destroyed, after all equipment which could be used for peacetime production has been dismantled.

V. All I. G. Farben owned, affiliated, or operated plants, not dismantled or set aside in accordance with the foregoing, will be available for operation under centrally controlled authorizations, pending determination of the final repara-

tions program, and subject to any standards that may be established by the Quadripartite I. G. Farben Control Committee. Non-I. G. Farben plants producing products which have been produced also in I. G. Farben owned, affiliated, or operated plants shall be made available for reparations only after the I. G. Farben plants have been made so available. During the interim period of determination of final availabilities for reparations, a plan shall be prepared for the dispersal of ownership of the I. G. Farben owned, affiliated or operated plants that may be retained in the United States zone, providing for the ultimate disposal of all such plants with no common ownership of any two plants.

In transmitting the report of DICEA to General Clay, I stated that I was in full agreement with Mr. Dodge's recommendations. Our report included also recommendations bearing upon the position of the United States vis-à-vis the quadripartite control of I. G. Farben.

The Finance Division's Report and DICEA's report were filed on December 17, 1945. The day before the reports were filed, a cable was prepared in the Economics Division for General Clay to forward to the War Department in Washington. In that cable, the Economics Division confirmed the information set forth in both reports with respect to plants available for reparations. On December 25, 1945, General Clay sent me a memorandum which stated that steps had been taken to reaffirm General Order No. 2 and Special Order No. 1 with the Finance and Economic Divisions and to make these orders our guiding policy in quadripartite action with respect to I. G. Farben. General Clay's memorandum stated in addition that the immediate designation of a substantial number of nonmilitary I. G. Farben plants in the United States zone as available for reparations had been directed.

On January 16, according to newspaper accounts, General Draper informed the quadripartite Farben control committee (1) that two explosive plants had been destroyed since the occupation. These obviously are the same two plants which were referred to in the Finance Division's report and in DICEA's report and which were Reich-owned and Farben-operated; (2) that the 12 other Montan plants, which were ordered destroyed well over 2 months ago, are in process of being dismantled; and (3) that seven other plants are being declared available for reparations.

The cable of December 16, General Clay's memorandum of December 26, and General Draper's reported accounting of January 17, indicate that the splendid work of this subcommittee, together with the surveys and recommendations of the Finance Division and DICEA have had some effect, and have increased immeasurably the possibility of decisive action with respect to Farben. The main responsibility now is to see to it that General Clay's and General Draper's expressions of intention are carried out and that the other recommendations in the two reports are put into effect. For even if present plans are executed, the total number of Farben plants affected would hardly extend beyond the Montan Reich-owned plants built exclusively for war production in World War II. Mr. Dodge's recommendations for the elimination of the war potential of I. G. Farben provide a procedure whereby all the wartime additions to Farben capacity would be made available immediately for reparations. They total far more than the seven plants presently "being declared available for reparations," and the total capacity goes far beyond the capacity of these seven plants.

In addition, most of the 12 plants which General Draper declares he has now ordered destroyed had been ordered destroyed under a directive dated November 14, more than 2 months earlier. This directive received considerable publicity at the time but it never went beyond the central control office and was reportedly held up "by agreement." This is typical of our experience with I. G. Farben: failure to do the obvious even when it is expressly directed. In the light of this experience, it seems to me that what we need now is more than a declaration of intent or publication of directives. It must be borne in mind that I. G. Farben represents the outstanding industrial unit of German aggression. It has been thoroughly investigated and its criminal activities laid bare. I. G. Farben alone of all units in German industry has been the subject of special legislation both for the United States zone and on a quadripartite basis for Germany as a whole. Our failure to act in this instance augurs ill for the carrying out of a vigorous policy with respect to other important segments of German industry which have not been so specially treated. In the United States Military Government, these deficiencies between action and policy developed from the fundamental fact that the officials responsible for the program did not support the directives to destroy Germany's war industry potential. Their energies and imagination have been expended in the direction of finding excuses for inaction

and devices for evasion of orders. If we are to eliminate Germany's war resources, this condition must be changed. We must have a staff there which without being pushed will aggressively proceed to carry out the letter and spirit of the Potsdam Agreement to the end that Germany will never again be able to threaten the peace of the world.

II. DECARTELIZATION

In order to construct a solid foundation for world security, our own United States policy and allied policy collectively have aimed to eliminate forces which, throughout the course of modern history, have repeatedly proved hostile to peace. JCS 1067 contained the following clear mandate to the commander in chief of our German occupation forces:

"36. You will prohibit all cartels or other private business arrangements and cartel-like organizations, including those of a public or quasi-public character such as the Wirtschaftsgruppen providing for the regulation of marketing conditions, including production, prices, exclusive exchange of technical information and processes, and allocation of sales territories. Such necessary public functions as have been discharged by these organizations shall be absorbed as rapidly as possible by approved public agencies."

The Potsdam agreement reinforced this directive by providing:

"12. At the earliest practicable date, the German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts, and other monopolistic arrangements."

Despite these clear orders, despite numerous unequivocal directives from the Cartel Committee of the Executive Committee on Economic Foreign Policy here in Washington, no decartelization law has yet been issued in Germany. After months of discussion and negotiation, there is still no law which would diffuse the gigantic concentrations of economic power in Germany, curb their activities or prohibit their multiplication. In fairness to our own representation on the Allied Control Council and that of the Russians and the French, it should be stated that as of November 27, 1945, the United States, Soviet, and French representatives on the Coordinating Committee did reach agreement on a draft law conforming generally with United States policy and with specific directives received from Washington. The matter was tabled, however, because of British opposition.

This stalemate cannot be attributed entirely to British resistance. The history of the efforts to draft a law eliminating cartels and excessive concentrations of economic power in Germany indicates that the United States representation on the quadripartite levels in the Directorate of Economics was vacillating and unsympathetic to the basic objective of the law. Our representatives, by failing to assert the very vigorous and definitive United States policy with respect to cartels and monopolies, encouraged the British predisposition to resist and discourage the proffered Soviet support for a strong law. Instead they followed a policy which was reflected by (1) excessive regard for what would or would not be acceptable to the British rather than for the execution of United States policy; (2) refusal to define issues; (3) advocacy of emasculating compromises, such as the elimination of mandatory provisions. It was only after successive unequivocal orders from Washington that United States representatives were forced to take a firm stand. Their original hostility, however, caused endless delays and contributed immeasurably to the present stalemate from which we can now be extricated only by decisive action initiated in Washington.

For the purpose of authenticating these generalizations, I should like to present a brief documentable history of the cartel law negotiations.

Shortly after the organization of the Control Council, the United States representative, at the first meeting of the Council's Coordinating Committee on August 19, 1945, filed a draft law providing for the establishment of a commission to carry out decentralization of the economy and elimination of cartels and excessive concentrations of economic power. In the Economic Directorate, to which the proposal had been referred, the Russians on September 12, 1945, offered a counter-proposal in the form of a simpler law, which defined cartels and excessive concentrations of economic power, prohibited them outright under specified penalties for violations, and provided that the Economic Directorate could make specific exemptions in particular cases. It was agreed unanimously to use the Russian draft as a basis for subsequent discussion.

At the risk of repetition, I should like to make clear the essential difference between our draft and the Russian draft; because, despite the unanimous agreement to use the Russian draft as a basis for discussion, our draft was continually

being projected and it constituted one source of much of the confusion. Under the Russian draft, cartels and excessive concentrations of economic power were explicitly labeled and made illegal. Excessive concentrations of power were defined to be enterprises with more than 3,000 employees or more than R.M. 25 million turn-over. In the months following, this definition came to be known as the mandatory approach. Our initial proposal provided for the establishment of an administrative agency without setting forth any rules for the guidance of that agency. It was the view of DICEA, and Washington subsequently confirmed the position, that the mandatory approach was essential to the confirmation of our policy as set forth in JCS 1067, Potsdam, and in directives issued to us by the Cartel Committee in Washington.

In the immediate period following, United States representatives, without openly challenging the mandatory approach, continued to press for the adoption of their own views. Major Petroff, a General Motors' attorney, who was on Laird Bell's staff, reported that he had negotiated a compromise draft with the Russians. The compromise draft turned out to be a short version of the original law proposed by the United States representation in the Control Council which, at best, merely provided for administrative machinery. There were no prohibitions in the law. At the September 27 meeting of the Economic Directorate it was apparent that no one had agreed to any compromise.

The British representative, Sir Percy Mills, was obviously opposed to the law, though he recorded his Government's agreement with the purpose of the law, "in principle," and its eagerness to expedite its issuance. As evidence of this desire to expedite matters, he proposed referring the draft to a working group, offering to name his representatives immediately. General Shabalin, the Soviet representative, said there had been sufficient time for technical consideration, and that the Directorate members were competent to act in the matter. General Draper added that the Directorate should be able to agree in principle, leaving only minor technical points to a working party. Sir Percy then stated that he could not consider the draft a law because only the Legal Directorate could draft a law. He then proceeded to discuss for 10 minutes the exact import of the word "stock ownership" in the draft. General Draper suggested that the same kind of question could be raised over the word "concern" and Sir Percy observed that was going to be his second point. It developed that the German word "concern" and the French and Russian as well, which means the largest combination possible of business enterprise, that is, the largest concentration of economic power situate within a country, such as I. G. Farben, carried no significance for Sir Percy. After much discussion, General Shabalin proposed to substitute our word "combination" and add in parenthesis the equivalent of the German word "concern." This suggestion, however, was rejected by Sir Percy as meaningless.

It should also be noted that in the course of the discussion, General Draper introduced the so-called compromise draft by proposing that one of its sections be substituted for the Soviet section defining excessive concentration of economic power. The effect of this one substitution, which was promptly rejected by the Russians, would have been to transform the mandatory provisions of the law into mere reporting requirements.

After hours of discussion of this character, a working party was appointed and instructed to file a draft within 5 days for consideration by the Economic Directorate. At General Shabalin's insistence, however, the working party was directed to use the Soviet draft as a basis. At Sir Percy Mills' insistence, a long list of principles was referred to the working party for consideration. These principles, summarized, were that size alone may carry advantages; and that no elimination should be made because of natural advantage of size. General Draper also submitted his so-called compromise draft for the consideration of the working party. In other words, everything was thrown into the "hopper" all over again.

I have described this early meeting in detail, not so much because those details are interesting or even important in themselves, but because that meeting is typical of all subsequent negotiations.

At the working party meetings, the British representative continued to raise technical considerations at every point and even the debate over the German word "concern" recurred. The Soviet and British representatives engaged in protracted debate over the objectives of the law. The Soviet representative argued emphatically for a law that would explicitly prohibit specifically defined concentrations of economic power in Germany and German participation in international cartel arrangements. The British representative continued to insist that the working party could not draft a law because that was the function of the Legal Directorate; that only general standards and not specific prohibitions could

be considered; that it was impossible to define excessive concentrations of economic power; and that German participation in international cartels could not be prohibited because Germany had to export in order to live.

These debates continued for 4 of the 5 days allotted to the working party to finish a draft. In the course of these arguments, Mr. Bell saw merit on both sides. Mr. Bell definitely supported the British insistence on including in the final draft of criteria for eliminating concentrations of economic power, the principles that size alone and the natural advantages of size alone should not be prohibitive. When Mr. Bell agreed with the Soviet representative that the working party's draft must contain some specific prohibitions, Colonel Bowie of General Clay's staff, who was also present, supported the British representative, claiming that he did not know what constituted a cartel and that Potsdam was not clear on this subject. The upshot was a working-party draft which merely enumerated a long list of criteria for eliminating concentrations of economic power in Germany, with no mandatory prohibitions, except for outright prohibition of cartel agreements.

On October 15 the document arrived at by the working party was forwarded by the Economic Directorate to the Coordinating Committee, where it was discussed on October 20. The Soviet representative, while approving the principles laid down by the paper, observed that they were too general and should be in a form more easily implementable. He suggested the advisability of stating in the text the number of employees, the annual turn-over, and the percentage of an industry that would constitute an excessive concentration of economic power. The British representative said he was not opposed to this in principle, but that it would be difficult to determine the number of workmen an enterprise may employ. General Clay then proposed the following specific numbers: 3,000 employees, 25,000,000 reichmarks turn-over, and 10 percent of production or other activity in any field of enterprise. By agreement the whole record was then referred to the Legal Directorate for embodiment in a law.

Shortly thereafter we were advised by Colonel Bernstein, who was then in Washington, that the working-party report had been unfavorably received in Washington because it fell far short of our established policy. A Washington-Berlin TWX conference was arranged for October 24, and representatives of DICEA were invited to participate in Berlin. Participating in Washington were representatives of the State Department and members of the Interdepartmental Cartel Committee that had approved the various United States policy statements which we had called to Mr. Bell's attention in the course of the working party's deliberations in Berlin. As a result of this conference, which was attended by Mr. Bell, Mr. Fahy, Mr. Heath, and myself (with General Clay and Mr. Murphy present part of the time), United States representatives in Berlin were instructed to support a draft law which would include mandatory provisions prohibiting domestic monopolies.

In the Legal Directorate the new United States draft of the law, complying with the instructions received during the TWX conference, was accepted on October 30 by all four powers. There apparently remained only the need for the Economic Directorate to fill in the blank spaces in the mandatory provision for (a) percentage of the industry, (b) annual turn-over, and (c) number of persons employed. Figures for the last two of these had been in the original Soviet draft, had not been objected to by anyone in any stage in the proceedings to that date, and had been reaffirmed by General Clay when he proposed figures for all three standards on October 20 at the Coordinating Committee.

Despite this, however, our representatives persisted in raising questions about the instructions from Washington. This was done by eliciting alternative technical instructions from Washington.

For example, on November 1, 1945, a cable came in from the State Department to Ambassador Murphy. It was in answer to a cable Ambassador Murphy sent to Washington which we had never seen. This cable twice referred to the mandatory provision proposed and merely offered an alternative mandatory standard, apparently on the premise that the turn-over standard would cause difficulties. Despite this, representations were made by people in the Economics Division to the effect that Washington had withdrawn from the mandatory approach. There was much to do over this cable and we were requested by Mr. Bell to indicate the position of DICEA on the matter. This we did in a memo dated November 3, 1945, which reaffirmed the necessity for mandatory provisions, supported General Clay's proposal of October 20, and suggested that the additional mandatory criterion proposed by Washington be recommended to the Economic Directorate but not pressed if it gave rise to opposition which might lead to disagreement on

the entire law. The fuss did not subside. A Sunday morning meeting, of which DICEA was not informed, took place with General Draper, Mr. Fahy, Mr. Bell, and Gen. O. P. Echols, General Clay's alternate, present. Apparently, the State Department cable of November 1 was discussed, for General Echols, though he had not previously been involved in the decartelization proceedings, cabled Washington suggesting that a specified percentage of production be the sole mandatory test and that neither the number of workers employed by an establishment, its size, or its annual turn-over be considered bases for mandatory prohibitions. General Echols stated that he made the suggestions because he anticipated difficulty in getting the law passed by the Economic Directorate. Had this cable met with a favorable response, General Draper would have been released from all instructions which resulted from the TWX conference and authorized to do the best he could on the only mandatory provision which had not previously been up for discussion in the Economic Directorate, namely, percentage of the industry. This incidentally is the most difficult criterion to define and the easiest to debate. We thereupon, on November 5, sent a cable to Colonel Bernstein, then Director of our Division and in Washington, to present the facts and obtain clarification. Copies of our cable were sent to General Draper, Mr. Fahy and Mr. Murphy immediately. Mr. Bell called promptly to inquire about the meaning of our action. During this telephone conversation I learned about the Sunday morning meeting that General Draper, Mr. Bell, and Mr. Fahy had attended, and was informed that it had been called in such great hurry that, unfortunately, there had been no time to let us know. Washington was prompt to reply to our cable and instructed that the original TWX instructions be followed.

There followed a period of complaints that the United States, by reason of its instructions, was in an isolated position in the Economic Directorate. Finally, the Economic Directorate submitted the law to the Coordinating Committee on November 27 indicating that the Directorate could not arrive at a unanimous decision. Thereafter, General Draper reported to General Clay's meeting of division directors that the vote in the Economic Directorate had been 3 to 1 against the law as approved by the Legal Directorate. It was claimed by the Economic Division that the Russians had changed their position. As a matter of fact, the Russians had not changed their position but were confused on our position. They were deliberately misled by such people as Major Petroff, who boasted that he had been instrumental in getting the Russians to change their position and that Ambassador Murphy had specifically asked him to do so. General Draper indicated great concern over his inability to get the British and the Soviet representatives to go along, but believed that he had convinced the Soviet representatives. When asked how he explained the apparent change in the Soviet position, since they had been the first to propose a mandatory law, he replied smilingly that he probably had had something to do with that, too. When, subsequently, we asked a Soviet representative why the Russians no longer took an aggressive position in the Economic Directorate on the issue of a mandatory as opposed to a discretionary law, he replied that if we wanted that kind of law we could count on their support any time we showed them that we meant business. He made clear to me that the Russians had been led to believe that we were going to throw in the sponge and that they had decided they were not going to fight for our law if we wouldn't. As a matter of fact, General Clay told me he was particularly gratified by General Sokolovsky's support of our law at the Coordinating Committee—he told me this less than 10 minutes after members of the Economics Division had told me that the Russians had opposed the United States position in the Coordinating Committee and that we had been outvoted 3 to 1. The Coordinating Committee meeting minutes of November 27 clearly show the opposite to be true. The British stood alone in opposing the law. In the face of this unilateral opposition, the Coordinating Committee agreed to drop the matter with leave to anyone to bring it up again.

On December 8, the State Department informed Berlin that if the British representatives on the Control Council were unwilling to accept a law with mandatory provisions, the State Department would take the matter up at the governmental level. On December 11 General Clay replied that the British were opposed to the law and that he would not bring it up again until he received instructions to do so. There the matter rested, so far as I know, when I left Berlin, a month later, and I have heard of nothing since that changes the situation.

In the light of these facts, it is my conviction that there will be no German decartelization law unless the State Department instructs General Clay to bring the matter up again and urges the British Government at a high level to reconsider its position. It is my further conviction that Germany can never be

economically disarmed until her internal monopolies, industrial trusts, and her external cartel arrangements are destroyed. A thoroughgoing program to achieve this must be instituted immediately. And its execution should be entrusted only to officials who are interested in carrying out the Potsdam agreement and the policy directives of this Government rather than in preserving their old business connections and their own economic positions.

III. DENAZIFICATION

The first clear statement of Allied policy on denazification was issued at the Crimea Conference on February 11, 1945. The conferees declared:

"It is our inflexible purpose to destroy German militarism and nazism and to ensure that Germany will never again be able to disturb the peace of the world. We are determined to disarm and disband all German armed forces; break up for all time the German General Staff that has repeatedly contrived the resurgence of German militarism; * * * wipe out the Nazi Party, Nazi laws, organizations and institutions, remove all Nazi and militarist influences from public office and from the cultural and economic life of the German people; and take in harmony such other measure in Germany as may be necessary to the future peace and safety of the world."

These purposes were reaffirmed on August 2, 1945, in the Potsdam agreement. Paragraphs 5 and 6 of that agreement read as follows:

"5. War criminals and those who have participated in planning or carrying out Nazi enterprises involving or resulting in atrocities or war crimes shall be arrested and brought to judgment. Nazi leaders, influential Nazi supporters, and high officials of Nazi organizations and institutions and any other persons dangerous to the occupation or its objectives shall be arrested and interned.

"6. All members of the Nazi Party who have been more than nominal participants in its activities and all other persons hostile to Allied purposes shall be removed from public and semipublic office, and from positions of responsibility in important private undertakings. Such persons shall be replaced by persons who, by their political and moral qualities, are deemed capable of assisting in developing genuine democratic institutions in Germany."

The same principles were repeated in the instructions set forth in JCS 1067 to the commander in chief of our occupation forces in Germany. JCS 1067 provided as follows:

"4c. All members of the Nazi Party who have been more than nominal participants in its activities, all active supporters of nazism or militarism and all other persons hostile to Allied purposes will be removed and excluded from public office and from positions of importance in quasi-public and private enterprises such as (1) civic, economic, and labor organizations; (2) corporations and other organizations in which the German Government or subdivisions have a major financial interest; (3) industry, commerce, agriculture, and finance; (4) education; and (5) the press, publishing houses, and other agencies disseminating news and propaganda. Persons are to be treated as more than nominal participants in party activities and as active supporters of nazism or militarism when they have (1) held office or otherwise been active at any level from local to national in the party and its subordinate organizations, or in organizations which further militaristic doctrines; (2) authorized or participated affirmatively in any Nazi crimes, racial persecutions, or discriminations; (3) been avowed believers in nazism or racial and militaristic creeds; or (4) voluntarily given substantial moral or material support or political assistance of any kind to the Nazi party or Nazi officials and leaders. *No such persons shall be retained in any of the categories of employment listed above because of administrative necessity, convenience or expediency.*" (Italics supplied.)

Thus, United States policy has clearly recognized that to destroy the forces of nazism in Germany, it is necessary not only to remove the Nazi Brown Shirts on the street, but also to get at their major partners, the militarists, Junkers, and industrial and financial leaders. This necessity was clearly recognized in War Department Pamphlet No. 31-110A entitled "Military Government Guide, Dissolution of the Nazi Party and Its Affiliated Organizations, Denazification of Important Business Concerns in Germany." This pamphlet was issued in March 1945 "for the information and guidance of all concerned" under a covering letter signed by Gen. George Marshall, Chief of Staff.

It described the business leaders and officials who exercise a preponderant influence in Germany; and listed approximately 1,800 business leaders who, to quote from the guide, "in an outstanding way, thrived under national socialism

who welcomed it in the beginning, aided the Nazis to obtain power, supported them in office, shared the spoils of expropriation and conquest, or otherwise benefited in their careers or fortunes under the Nazis." These individuals were listed alphabetically and according to their company and industry. The official position of each individual, as well as some indication of his special relationship to Nazi economic activity, was included. There is every indication that this list as a starting point was very carefully prepared by the best research and intelligence units in the American military forces.

The pamphlet recommended that, as a security measure immediately to be put into effect, military government take into custody all the persons listed and prohibit them during the period of such custody from making any disposition of property as well as from exercising any managerial, supervisory, or other function whatsoever with respect to any business enterprises. The document emphasized the presumption of culpability attached to the persons listed and stated that it would be imprudent to leave at liberty a group so thoroughly suspect. This document was issued before the end of the war and was distributed among the various units of military government and of the United States occupying forces.

On May 10, 1945, JCS 1067 was issued. In addition to the provision which I quoted at the beginning of my statement, section 8 of that document sets forth 11 categories of persons whose arrest was made mandatory. To the best of my knowledge this section of the directive has never been made public. I can merely indicate therefore, that though it purported to be only a partial listing of persons to be arrested, it was most comprehensive and definitely ordered the arrest of all Nazi and Nazi sympathizers holding important positions in industry, commerce, finance, and agriculture.

This directive to arrest key industrial and financial figures has not been applied in the United States zone. The reasons for this are manifold. Primarily, the responsibility for carrying out this vital provision of JCS 1067 was never specifically assigned. In the second place, the Arrest Categories Handbook governing the operation of the Counterintelligence Corps in our arrest program does not conform with the orders contained in JCS 1067. Despite the persistent efforts of the Public Safety Division officials in Germany to amend the handbook's mandatory arrest provisions, no reference is included to the key industrial and financial personnel specified in JCS 1067. Neither are these categories mentioned in the existing arrest directive. As a result of this lack of a specified operational policy and of clearly assigned responsibility, and as a result of lack of trained personnel to handle the problem, shockingly few industrial and financial leaders in the United States zone in Germany were in our custody at the end of 1945. Those few who were in custody had been arrested only on a hit-and-miss basis, and, for the most part, not because of their financial and industrial leadership in the Nazi Reich but because of notorious political positions.

The confusion is clearly reflected in problems faced by DICEA in connection with its arrest of various bankers and industrialists for investigation purposes. In the early days of occupation, our investigators arrested those officials required for interrogation. When we had completed our investigations, the problem arose as to whether these people were to be retained in custody. Criticism was leveled at the Division for keeping various Germans in prison without "specific charges" against them, and the authority of the Division to detain them was challenged.

For example, at the conclusion of the I. G. Farben investigation, a highly important group of I. G. Farben directors who had been extensively interrogated remained in custody. These included Paul Denker, director of Farben's accounting division, and an important official in various Farben subsidiaries, including those manufacturing poison gas for the Wehrmacht; Carl von Heider, general director of sales of inorganic chemicals; Hans Kugler, general director of sales of dyestuffs; Helmuth Borgwardt, general director of sales of organic chemicals; Geunther Frank-Fahle, chief of the central finance office and director of Max Ilgner's notorious espionage group in N. W. 7, and Kurt Kruger, another Ilgner lieutenant; Herbert Stein, chief legal adviser, chemical and dyestuffs division and an old Nazi; and Gustave Kupper, head of the legal division of the dyestuffs department who was at that time in the employ of the I. G. Farben control officer but who subsequently was arrested for an insurance fraud not connected with his Farben activities. Because of the wealth of proof unearthed with respect to the Nazi and militarist activities of these officials, DICEA strongly urged that they be kept in custody. This suggestion was just as strongly opposed by Colonel Pillsbury who reported that until his office obtained information which would

provide a basis for substantive charges against these officials, he would require their full-time services in the preparation of reports needed for accomplishment of the objectives of the seizure of I. G. Farben properties. This matter has been the subject of further correspondence and discussion with General Clay, and at the present time a special investigation of the arrest status of I. G. Farben officials is being conducted in the United States zone of Germany at the instigation of General Clay.

The same situation arose in connection with other investigations undertaken by DICEA. In October 1945, we began an investigation of the major German banks, known as the Big Six German banks, including the Deutsche Bank, the Dresdner Bank, Commerzbank, Bank der Deutschen Arbeit, Berliner Handels-Gesellschaft, and the Kredit-Gesellschaft. Our preliminary investigation had indicated the complete involvement of these great banks in the Nazi Reich war program. On the basis of this evidence, and in spite of our drastically reduced staff, we decided that it was necessary to conduct an investigation that would further reveal the nature of these banks as excessive concentrations of economic power and would form the basis for indicting their responsible officials as war criminals. As in the case of Farben, it was necessary to arrest for purposes of interrogation all the members of the boards of directors (Aufsichtsrat) and the boards of managers (Vorstand) of these big banks whom we could find inside the United States zone. In connection with this effort, we were confronted with various degrees of opposition despite the fact that General Clay and Mr. Dodge, Director of the Finance Division, gave us their full support. For example, we were unable to arrange to have the Counterintelligence Corps make the necessary arrests throughout Germany, and eventually, it was necessary for DICEA to have its own representatives deputized to make the arrests themselves. Once the top German bankers were taken into custody, we had difficulty in procuring jail facilities for them. There were general complaints about our arresting "too many" Germans and about our not being able to prefer substantive charges against them. At one point, Major General Adcock, the head of OMGUS, announced his intention of releasing all of our prisoners; and a great deal of effort was spent by representatives of my staff trying to prevent their release and arrange for jail facilities. Some of the military government officials charged that our investigations were merely "radical" moves against "good" German industrialists and bankers. Efforts were made to induce us to release this German banker or that German industrialist despite the revelations of our investigation.

The Freudenberg case is one illustration of the difficulties we encountered in rooting nazism from Germany's economic life. Richard Freudenberg was an extremely important German industrial leader and member of the Nazi Party. His local military government detachment petitioned for his exemption from our denazification orders and for permission authorizing him to continue in his business. Freudenberg was the largest leather and shoe manufacturer in Germany, and one of its richest Nazis with an income amounting to over one million marks in 1944. Freudenberg's service to the Nazi economy and his contributions to the Nazi coffers were so highly valued that he achieved the high position of Wehrwirtschaftsführer (war economy leader) and member of the Gauwirtschaftskammer (regional economic council). These positions alone without regard to his industrial activity placed him squarely within the mandatory arrest provision of JCS 1067. In spite of this record, the USFET denazification appeal board sitting in Frankfurt voted 4 to 1 to exempt him from application of the USFET denazification directive and to continue in his position as an industrial leader. Colonel Babcock, of the Public Safety Division, who argued against retention of Freudenberg in his business said: "I voted against this man because if he is reinstated, he will supervise the removal of lesser officials under law No. 8 and it will be ridiculous for us to remove smaller Nazis and leave the big one in." However, Mr. Reinhardt representing Ambassador Robert Murphy, insisted, "What we are doing here through denazification is nothing less than a social revolution. If the Russians want to bolshevize their side of the Elbe that is their business, but it is not in conformity with American standards to cut away the basis of private property." This viewpoint was concurred in by the Industry Division, whose representative added, "This man is an extremely capable industrialist, a kind of Henry Ford." At the very time that this extraordinary decision was taken, Freudenberg was under arrest by DICEA for purposes of interrogation as a member of the board of directors of the Deutsche Bank. Our initial intervention in this case was ignored and it was only after the most vigorous effort that we were able to have the decision of the denazification board temporarily tabled.

At General Adcock's meeting of branch chiefs of the Office of Military Government for the United States zone, November 30, 1945, it was announced that G-2 believed it had complete 98 percent of the arrests required under the SHAEF Arrest Categories Handbook of April 1945. These categories, as I have stated before, exclude some of the most important groups listed for arrest in JCS 1067, such as the General Staff, urban and rural burgermeisters, key industrialists, and financiers. The handbook does include intelligence, police, and SS officials under Himmler, officials of the Nazi Party and its paramilitary formations, and the higher civil service. Even for these extremely limited categories which comprise some 200,000 persons in the United States zone, the figure of 98 percent is utterly incredible to those of us who worked in Germany. At the time I left Germany only about 85,000 in these categories were under arrest. Practically no member of the higher civil service employed in the Reichsbank system, for example, was ever known to be arrested. The same is true for finance ministers in the Land (Provincial) governments. The CIC was either too understaffed or too uninterested to make the arrests. If this was true in the case of high finance officials, there is reason to suspect it was true in other public agencies. Yet these high civil servants were listed for arrest on the very good grounds that by the 1937 German civil-service statute, civil servants took oath to "support without reservation the German National Socialist state." In the opinion of our own G-2, "only persons of undoubted political reliability were, therefore, likely to be appointed or to remain in office under this system."

The 98 percent figure is difficult to credit in the light of an AP dispatch of January 3, 1946, from Third Army headquarters, which states, "So far only about 16 percent of SS officers had been rounded up."

Apparently on the basis of such false assurance of a job completed, plans were under way when I left Germany for the wholesale release of security suspects, including higher civil servants and Nazi Party officials below the Ortsgruppenleiter level, through the very flimsy screening procedure of "security review boards." The main reason given for release is, "The jails are too full. Let's get 'em off our hands and back into productive employment."

Just before leaving Berlin, I took this matter up as widely as possible inside of military government with representatives of the War Crimes Commission, the Office of Chief of Counsel, OMGUS Legal Division, and other interested units. A tentative arrangement was made whereby the Office of the Chief of Counsel who has responsibility for the second series of war crimes trials would undertake the further responsibility of seeing to it that the arrest of financiers and industrial leaders was effected and their cases prepared. These agreements, however, were very loose, and in view of the fact that no staff has yet been assigned to this particular function, one may question how much progress will be made. Indeed, the recent statement of the chief of counsel himself, Justice Jackson, that he is very doubtful whether any industrialists will be tried as war criminals, underlines the extreme uncertainty with regard to this major issue. What is actually required is immediate agreement on policy to be applied in this particular matter, the listing of the industrial and financial leaders deemed suspect, and their immediate apprehension. The continued freedom of these industrial and financial leaders gives them extraordinary opportunities to destroy the evidence that would involve them in the Nazi crimes and has already allowed them the opportunity to begin the reconstruction of their own personal fortunes and their own industrial and financial power.

Our record on arrests is equaled only by our record on removals. The latter record is a long series of resounding statements of policy offset by serious failure to implement them with action.

Under Generals Eisenhower, Bradley, and Devers, a strong denazification policy was enunciated early in the occupation. The denazification directives of the Sixth and Twelfth Army groups called for the removal of all Nazis from positions of influence and importance in public and private life. The directive of SHAEF, issued March 24, 1945, called for the removal "as soon as the military situation permits" of "all members of the Nazi Party from important governmental or civil positions." Compliance with these directives was very spotty, but at least there was the extenuating circumstance that the war was still on; and after VE-day purely military considerations prevented full attention to the job.

At the end of June, SHAEF was dissolved and a new directive issued by Headquarters United States Forces, European Theater. A major policy fight occurred. The Political Division, headed by Robert Murphy, wanted to make removal mandatory only for Nazi Party officials. An "Old Fighter," a veteran of the street fighting which built the party before 1933, could escape removal. At the

insistence of Colonel Bernstein and myself, representing the Finance Division, the draft directive containing this provision was reconsidered and strengthened by making removal mandatory for all Nazis who joined the party before May 1, 1937. This provided a simple objective test of adherence to the party, since it included all the Old Fighters, the opportunists who joined right after Hitler took power in 1933, and the carefully selected applicants admitted from the SS, SA, HJ, and other formations between 1933 and 1937. This provision, however, still permitted retention of, roughly, half the Nazis in the zone, who, under the election code drawn up by military government last fall, were even permitted to vote.

Then came the period during July, August, and September in which the application of this USFET directive was put to the test and found sadly wanting. In finance and civil government, considerable progress was made; a survey of industry, transport, and communications, however, showed flagrant procrastination and even disregard of the directive. The attitudes of military government officials underlying this situation will be discussed at a later point in my testimony. The main factor was an exaggerated reliance upon allegedly indispensable Nazis in order to "get things going." There was little or no attempt to find non-Nazis or anti-Nazis as replacements. Regardless of the sincerity of many local military government officials, there was a cynicism in high places which made evasion of General Eisenhower's directive possible without fear of disciplinary action.

Unfortunately, at this time the Political Division issued a report, dated August 20, stating that the immediate steps of denazification had been completed. In a memorandum to General Clay dated September 12, 1945, Colonel Bernstein charged that such a statement flew in the face of the facts and could only serve to discredit the credibility of military government in Germany. He then went on to summarize the failures of denazification up to that date. This memorandum was followed, at General Clay's request, by another dated September 26, giving detailed factual data. General Clay commended the "meatiness" of these reports and instituted investigations. Meanwhile, military government was being subjected to a barrage of embarrassing criticism in the press. General Eisenhower acted, first with a letter dated September 11, to the commanders of the Third and Seventh Armies, warning that the discussional stages of this question were long past and that any expressed opposition to the faithful execution of the denazification order would not be regarded leniently by him.

Finally, on September 26, 1945, General Clay issued Military Government Law No. 8, which declared unequivocally that it would be unlawful for any business enterprise to employ any member of the Nazi Party, or of its affiliate organizations, otherwise than in ordinary labor.

The initial effect of General Eisenhower's directives and of Law No. 8 was good. Soon, however, their effect wore off. Military government officials relaxed and helped the Germans find ways to evade Law No. 8. When Byron Price returned from Germany he reported that "denazification of industry in the American zone has proceeded further and faster than in any other zone of Germany." Inevitably, statistics were furnished to justify such statements and obtain an easing of the policy. For example, on November 5 the USFET publication, News of Germany, contained the startling information that the denazification of German public offices, businesses, and professions was 99 percent completed. These figures are false. The weekly denazification report of the Public Safety Section, USFET, of November 3, 1945, sharply contradicts their authenticity and states authoritatively that only 4 percent of the German population in the United States zone has even been investigated.

The monthly report of the military governor, United States zone, dated November 20, 1945, reported that "an estimated 80 percent of the denazification work in all industrial plants in the United States zone had been completed by October 31." On December 18, this figure was declared without foundation by Major DeMuth, Industry Branch representative on denazification matters.

In his purportedly authoritative report to President Truman, Mr. Price also stated that the German railways had been drastically purged of Nazis. This aspect of Mr. Price's thoroughly unreliable statement on denazification was refuted by reports at the end of January that the head of German railways in the United States zone was a top Nazi and that 4,500 other Nazis had not yet been dismissed.

This contrast between what is claimed and what has been accomplished under Law No. 8 is very great. A month after the baseless report that industrial denazification under Law No. 8 was 80 percent completed, the same monthly

report of the military governor, dated December 20, 1945, declared that "the promulgation of Law No. 8 was an effective instrument in carrying out the denazification of German business." But the writer should have known better. Two pages later, in a less conspicuous place, he admits that—

"To date military government in the United States zone has not been flooded by appeals under Law No. 8, primarily because large numbers of Germans affected are circumventing the law and therefore not making appeals. * * *"

It cannot be both ways. Either Law No. 8 is effective, or it is being circumvented. The overwhelming mass of evidence shows circumvention. In late December, field investigators of the Finance Division and the Public Safety Division studied Law No. 8 in operation in Munich, Nuremberg, Stuttgart, and Wiesbaden. They reported general agreement by German officials and Military government officers that Law No. 8 has failed. German businesses simply remove the Nazi manager and rehire him as a clerk, perhaps with a Christmas bonus to make up his old salary.

Why are we failing? I said at the beginning of this statement that we do not have a staff in Germany which, from top to bottom, possesses the will and the understanding to carry out denazification. It is not just a problem of redeployment, of the quantity of military government officers left in Germany, but of their quality and the policies they believe in and will enforce.

Our field investigators from the Finance Division traveled continuously in the United States zone from May through December, checking up on denazification. Throughout these trips we constantly saw hostility on the part of military government officials in the field to anyone who came down from higher headquarters to enforce General Eisenhower's denazification directives. More than one military government official inquired whether our men were "of the Jewish faith," since they could understand no other reason for an interest in denazification.

At every level of military government and from one end of the zone to the other we encountered the arguments of expediency and convenience, the necessity of "keeping things running," the dangers of "angering" the Germans and creating a dissatisfied "bloc" which would be ripe for communism, the resentment of lower headquarters against "interference" from higher headquarters, the fantastic comparison of Nazi politics with Democratic-Republican rivalry in the United States. Responsible officers have cried out against the "injustice of removing a Nazi without a hearing" despite the fact that such hearings were expressly prohibited. They have argued that vigorous denazification lowers our prestige—I assume with the Nazis—as compared to the British, who are reportedly not so vigorous. They have attacked Law No. 8 on the grounds that it was Communist-inspired.

I mentioned the case of Richard Freudenberg earlier. In this connection, the chairman of the USFET Denazification Board said that there was nothing wrong with a big industrialist lending all his business talents to the Nazis' criminal cause, while the representative of Ambassador Robert Murphy declared that to remove such an industrialist would be "bolshevization."

Last August our field investigators in Bavaria encountered Col. Joseph Starnes, formerly a Congressman on the Dies committee, who was repudiated by the voters of Alabama in 1944. Colonel Starnes, representing a division of the United States group, Control Council, was urging the detachments to ignore denazification, to pick the men they needed to get German industry started.

The chief finance officer for all of Land Baden, Wurttemberg, Lt. Col. George Auffinger, in dealings with our field investigators consistently maintained that denazification would drive the German people into the hands of the Communists, that we did not destroy one dictatorship in order to build another, that we must preserve a bulwark against Russia. Colonel Auffinger, incidently, has a long record of stubborn and misconceived opposition to denazification. He has bluntly stated that if certain denazification teams had not visited Stuttgart, he would not have had to comply with the denazification directives.

Major Scholley, former finance officer at Mannheim, on August 23 described denazification as "witch hunting." Lt. J. P. Varda, one of the military government officers in Bavaria, described it as an irksome and irrational obsession of higher headquarters; stated that removal created a bloc of dissatisfied Germans who become ripe for communism, and also created a public safety problem by arousing the anger of those Germans.

The Finance Division staff was attacked for its activities in behalf of denazification by means of a rumor circulated through Bavaria that due to drastic denazification a cobbler had been appointed a bank director. This rumor was actually typed up in memo form and filed in the finance office of the Bavarian Land Detachment.

In discussion before the USFET Denazification Board last December of the revision of the Arrest Categories Handbook, the G-2 representative (Lieutenant Allen) revealed the prevailing attitude of the revision committee members; that they had orders, not to alter JCS 1067 but to change a few words here and there in order that a great many persons in custody could be released without technically violating JCS 1067.

At the first meeting of the new Denazification Policy Board, set up in Berlin to coordinate all policy on arrests and removals, the chairman of the board's working committee, Lieutenant Colonel Bowie, announced that the policy of JCS 1067 should be "reconsidered." Once again it must be emphasized that such "reconsideration" had not been authorized and could lead only to further weakening of our denazification program.

In December General Clay very wisely pointed out the necessity of integrating all aspects of our denazification program. Consequently, he appointed a top committee on denazification—the Denazification Policy Board—consisting of Mr. Charles Fahy, as chairman, Ambassador Robert Murphy, Mr. Joseph Dodge, Brigadier General Draper, and Brigadier General Mead. This committee then established a working committee with Lieutenant Colonel Bowie as its secretary to work out a program in line with General Clay's request. Before I left Berlin, I sat in at the meetings of both the top committee and the working committee. With respect to the make-up of these committees, it is important to note that the persons who led the fight for vigorous denazification are no longer in the picture and that some of the most active opponents of denazification dominate the situation. It is a matter of common knowledge that Col. Bernard Bernstein, when he was director of the Finance Division, and his staff were the leading proponents of a vigorous denazification program. They obtained strong support from the Manpower Division and certain officials in the Public Safety Division. Now Colonel Bernstein and almost his entire staff of denazification experts have left Germany. The Manpower Division was not included in the denazification committee. The fate of the denazification program has been entrusted to officials who either have positively opposed vigorous denazification policies in the past or who, at the very best, have not heretofore taken a very active part in the fight for effective denazification. Moreover, it is apparent that the committee has in effect adopted Mr. Price's completely unreliable memorandum as its guide. When I left Germany this fact was indicated in the proposals (1) to introduce "flexibility" into denazification and (2) to turn the bulk of the program over to Germans. I have since learned that these proposals have been translated into a draft law and submitted to General Clay for approval. It was reported in the press on February 20 last that after negotiations in Stuttgart between German officials and American representatives there had been formulated a so-called compromise law which represents a merger of the proposal drafted by the American Denazification Policy Board and that drafted independently by the three ministers-president of our zone. This compromise law now before General Clay provides for registration of all Nazis, and it provides for certain mandatory punishments for some classes of Nazis. On the other hand, factors such as regular attendance at church, or physical injury suffered in battle or during an air raid, or loss of a relative in the army may be considered by the German denazification boards as mitigating factors in deciding whether or not punishments over and above those specifically provided by the law shall be handed out. Responsibility for enforcement rests upon the German ministers-president, who will appoint their own denazification officers to do the administrative work. There is a question as to whether these ministers-president want thorough denazification. Certainly, the original German proposal to which they had put their names had the character of a law to avoid denazification. One of the three ministers-president is a former member of the German State Party, who praised Hitler's policy in the Reichstag in 1933. The other two have been attacked by their fellow Germans as reactionary or weak and as having failed to purge their own governments of fascists.

We have not had and do not have in Germany Military government personnel and political advisors with the understanding and the determination essential merely to applying automatic denazification standards. Obviously then, they have been and are completely inadequate to deal with the far more difficult and subtle task of rooting nazism from German life. The few reluctant steps taken in response to a barrage of criticism from home have been grossly insufficient to destroy or even begin to destroy the Nazi influence and to replace it with democracy.

As we approach the first anniversary of our occupation of Germany, it is essential to recognize that antidemocratic, militarist, nationalist, and fascist principles are still predominant in the minds of the German people. This state of mind, which has repeatedly been of such tragic consequence to the rest of the world, has not, will not in the near future, be replaced by principles of democracy and internationalism. Under these circumstances, it becomes extremely urgent to carry out our commitments to undertake in cooperation with our allies, destruction of Germany's economic capacity to wage war.

IV. GERMANY'S EXTERNAL ASSETS

Introduction

A problem of disarmament

One overriding objective dominates our policy and must dominate our actions with regard to Germany. That objective is to assure that Germany will never again be able to threaten the peace of the world. In the attainment of this main purpose, it is necessary to recognize that destruction of the instruments of warfare alone is inadequate. Germany's economic potentialities for warfare must be completely eliminated. One of the most important aspects of this work is the elimination of the economic bases for warfare strategically placed and secreted by Germany outside her boundaries. This vast German wealth outside Germany was vital to the rearming of Germany and the disarming of her prospective victims. It now represents a major potential base of operations for Germany again to launch aggressions against the world. It is toward the complete destruction of this potential that the Allied program for seizure of Germany's external assets is directed.

In searching out Germany's external assets we are engaging in one of the most important stages of the disarmament of Germany and the destruction of Nazi power. It is impossible to estimate reliably the volume of the external wealth of Germany because so much of it is camouflaged and hidden through various devices. It has been estimated that the volume equals at least 1.5 billion dollars (excluding the United States, United Kingdom, Canada, Italy, and Central and Eastern Europe). It is my judgment that if we really are successful in vesting and marshalling all of Germany's wealth, the value of Germany's external assets might well amount to \$3,000,000,000. At any rate, until the allied forces have reached throughout the world and relentlessly and realistically searched out every vestige of Germany's external wealth, we will not have completed the task of demobilizing the Nazi force.

In a secondary but nonetheless important degree, we are interested in Germany's external assets as reparations to compensate for the tremendous losses inflicted upon the nations of the world by Nazi aggression. This aspect of external assets is important to the United States because the degree of aid and assistance we will be called upon to give the victimized nations of Europe will be increased or diminished in direct proportion to the amount of Germany's external assets which can be made available as reparations.

The United States has taken a leading part in waging economic warfare against the Axis powers. The details of this program have already been explained to this subcommittee by representatives of the State Department, the Treasury Department and the Foreign Economic Administration. I should like to discuss with you some of the more recent developments in our economic warfare against the Nazi Reich as they relate to Germany's external assets.

The origin of the Allied Control Council vesting decree

President Truman took to the Potsdam Conference the draft of a law to vest and marshall all of Germany's external assets. At the instance of American representatives there, the Potsdam declaration stated in its economic principles:

"Appropriate steps shall be taken by the Control Council to exercise control and the power of disposition over German-owned external assets not already under the control of the United Nations which have taken part in the war against Germany."

Immediately following the Tripartite Conference of Berlin held at Potsdam, President Truman sent to Lieutenant General Clay, Deputy Military Governor for United States in Germany, a memorandum urging the passage by the Allied Control Authority of an appropriate law vesting and marshaling Germany's external assets.

After considerable discussion, Allied Control Authority, Control Council Law No. 5, Vesting and Marshaling of German External Assets was signed by General

Koenig, Marshal Zhukov, General Eisenhower and Field Marshal Montgomery on October 30, 1945.

Allied Control Council Law 5—"Vesting and marshaling of German external assets"

The vesting and marshaling decree states in its preamble that the control council is determined to assume control of all German assets abroad and to divest the said assets of their German ownership with the intention thereby of promoting international peace and collective security, by the elimination of the German war potential.

The decree creates a German external property commission composed of representatives of the four occupying powers in Germany. This commission is constituted "as an intergovernmental agency of the control council vested with all the necessary powers and authority." The law vests in this commission "all rights, titles, and interests with respect of any property outside Germany which is owned or controlled by any person of German nationality or by any corporation or business organization deemed to be German."

In addition, law 5 gives the four powered German External Property Commission complete authority to do all acts necessary to carry out the vesting and marshaling of all German external assets pursuant to the terms of the decree.

First steps to implement vesting decree

On 5 November 1945, I was designated acting United States representative on the German External Property Commission. In anticipation of this designation, I had presented to General Clay on the 3d of November 1945, a memorandum, together with the appropriate attachments, setting forth the steps required for the immediate implementation of the vesting decree and the organization of the German External Property Commission. This memorandum called for immediate presentation of notes by the Control Council itself and by the four occupying powers to the neutral governments requesting recognition and enforcement of the decree backed up by a policy of using economic sanctions to obtain such recognition. It was necessary that a strong and immediate unified approach be made in order to prevent further dissipation of German assets and to overcome the resistance of the neutrals to giving up German assets which legally and morally belong to the Allies.

State Department instructions to split GEPC operations

However, the idea of a strong four-powered approach was soon discarded by a cable from the State Department to the Division of Investigation of Cartels and External Assets immediately following the first preliminary meeting of the German External Property Commission on November 27, 1945. This cable directed that the United States representative make the following proposal to the Control Council:

(1) The German External Property Commission should be organized into two separate operating units. The one unit, the Soviet Union would be the sole voting member and the other three powers would act as observers. This unit would deal with Germany's external assets in Bulgaria, Hungary, Rumania, Finland and eastern Austria. In the second unit, the voting members would be the United States, France and Great Britain with the U. S. S. R. represented as an observer. This unit would take care of the German external assets in all other countries.

(2) It was requested that the Control Council and the GEPC should agree to exempt all the Latin-American Republics from the coverage of the vesting decree "upon representations of the United States member that these countries have satisfactorily carried out their replacement and reparations program." It was suggested that this order should be prepared but its issuance should be temporarily delayed. It was also indicated that even this procedure need not be followed if it were deemed to be unwise. The State Department requested that an explanation be given if this part of the directive were not put into effect.

Objections to State Department instructions to split GEPC

Upon receipt of this cable, I prepared and sent to General Clay drafts of the necessary documents for submission to the Control Council to carry through the instructions of the State Department. In the memorandum covering these documents, I urged that they not be submitted to the Control Council at that time for reasons outlined in a memorandum dealing with the State Department's cable which I submitted to General Clay at the same time. Copies of this memorandum were sent to the OMGUS legal adviser, Mr. Charles Fahy, and to the representative of the State Department and Director of the Political Affairs Division, Ambassador Robert Murphy.

In substance, the memorandum objected to the proposal to divide the German External Property Commission on the grounds that such action was in direct conflict with the quadripartite nature of Control Council law 5 and would undermine the only effective basis for action, namely vigorous joint four-power cooperation. I pointed out that it was unfortunate for the United States to take the initiative in breaking the unity of the four powers in this important international operation of the occupying powers of Germany at a time when the need for unity was so great. I objected to the proposal to remove the Western Hemisphere Republics from the coverage of the decree, particularly Argentina. I also stated that it was not my understanding that the State Department could proceed to implement the vesting decree in the manner indicated, without transgressing the jurisdiction and responsibility of the German External Property Commission; and that the continuation of such action placed the United States representative on GEPC in an impossible position inasmuch as he is unaware of the status of negotiations being conducted by the State Department which were of the most immediate concern to the GEPC, and placed the United States representative in a most embarrassing position vis-a-vis the Soviet representatives on the Commission. In addition, I attached a proposed program designed to expedite the effective operation of the German External Property Commission. Permission was requested to introduce this paper as a guide to the Commission's activities but such permission was never granted.

At the meeting of the OMGSU staff on December 1, 1945, General Clay made reference to the cable from the State Department, and stated that the proposal to split the GEPC into two operating parts was "gravely against the spirit of quadripartite machinery." Moreover, General Clay indicated his definite opposition to the suggested proposal to exclude the Latin American Republics from the coverage of law 5 at the present time. During the following week I discussed this matter at length with General Clay, who reiterated his opposition to these proposals of the State Department and indicated his support of the position taken in my memorandum to him of the 30th of November 1945.

Soviet view on issue of splitting GEPC operations

Seeking clarification on the question of dividing the work of the External Property Commission, I discussed the matter with the Soviet representative on the GEPC, Mr. Denisov, on the 3d of December. In essence, the Soviet position as represented by Mr. Denisov was that they were interested in the application of law 5 in all countries, including the neutral countries, and that they did not know of any agreement by which the Soviet Government had renounced its interest in the implementation of Allied Control Council law 5.

Teletype Conference on GEPC split issue

On December 15, 1945, at the instruction of General Clay, a Teletype Conference was arranged between General Clay and myself in Berlin and with General Hildring, Col. James C. Davis, and Lieutenant Colonel Gross of the Civil Affairs Division, War Department, and Mr. Seymour Rubin and Mr. Walter Surrey of the State Department, for the purpose of clarifying the situation regarding external assets. Opening the Conference, General Clay restated our concern at the State Department's cable of November 24. General Clay stated, "We will proceed promptly when decision is made, but we did not desire to do so without advising you of our apprehensions." The State Department representatives indicated that they had had preliminary discussions on the issues raised with Mr. Braden and with Mr. Thorpe, who was acting on behalf of Mr. Clayton at that time. The content of these preliminary discussions was described and then commented upon by General Clay and myself in Berlin. At the conclusion of the Conference, the Washington conferees stated "We will prepare detailed cable on the questions you raised, after which you may desire further TWX Conference. You need take no action pending further advice."

Present status of controversy

The last comment made by General Clay to me before I left Berlin on the 10th of January was an expression of his concern that we had received no further clarification of this issue and a request that everything possible be done to get the matter cleared up. I have been informed that as of last week, these matters have not been clarified and to this extent the functioning of the American representative on the GEPC continues "in limbo." I am also informed that after this controversy was reflected in the press, the State Department sent cables to the United States Embassies in Moscow, London, and Paris, requesting that they

make appropriate arrangements to approach the Soviet Foreign Office and inform them of the developments of a tripartite nature regarding Germany's external assets. As far as I know, however, to date no such approach to the Soviet Government has been made. I have the impression that when it is made it will be the first significant approach of this nature to the Soviet Foreign office. Meanwhile, arrangements have been completed for a meeting of the Swiss officials with the French, British, and American officials here in Washington for the purposes of discussing the external-assets question. The War Department officials indicated to me that to their knowledge, the Soviet Union had not been invited to send representatives even as observers to these meetings.

Charges arising from external-assets situation

On the basis of these preliminary facts, I am led to the following conclusions:

1. The United States State Department and the British Foreign Office have been, and are now, preventing the Allied Control Authority, through the German External Property Commission, from proceeding to implement law 5, the vesting and marshaling of external assets decree, and thus are bypassing and nullifying the four-power action taken at Berlin with regard to external assets.
2. The United States State Department, together with the British and French Foreign Offices, have maneuvered to split the quadripartite German External Property Commission into "eastern and western units" and are proceeding to crystallize this split among the four powers in regard to the external assets problem. This unwarranted action, in my judgment, stems from the concern on the part of certain influential and apparently dominating influences in these offices to avoid having the Soviet Union, through genuine quadripartite action, involved in the external-assets question in countries such as Spain, Portugal, Switzerland, Sweden, and Argentina.
3. By failing to implement vigorously the quadripartite Allied Control Authority action against Germany's external assets, the United States and Great Britain are losing the opportunity to develop an effective, forceful drive to root out all of Germany's assets. We are applying ineffectually a "would you be so kind" approach in the drive for the camouflaged assets of the Germans in such Fascist countries as Spain, Portugal, and Argentina. As a result of this, our drive to divest Germany of its external wealth has bogged down and is profoundly jeopardized. Let me discuss each of these conditions separately.

Allied Control Council quadripartite machinery being ignored

The action of the Allied Control Authority represented by Generals Eisenhower, Zhukov, Koenig, and Field Marshal Montgomery, in passing a special law for the vesting and marshaling of Germany's external assets was based upon the realistic judgment that in this extremely difficult aspect of creating external security, the joint action of all Four Powers was required. Reference to the language of law 5 indicates beyond doubt the unqualified joint four-power nature of the operation contemplated and emphasizes the urgency of this action for world security and the elimination of Germany's war potential. Moreover, the entire basis of Allied Control Authority action with regard to Germany is Four Power combined operation, which is the objective of all ACA legislation. In the face of this fact, the United States State Department, the British Foreign Office, and representatives of the French Government, have proceeded virtually to ignore the ACA law 5, and have proceeded without significant reference to this law or to the agency which it created, to establish their own procedures with regard to Germany's external assets. Taking advantage of the admitted necessity of utilizing diplomatic channels when approaching foreign governments, these foreign offices have moved in to take over the entire operation with regard to Germany's external assets in the vital neutral countries. This they have done on tripartite basis. The extent to which this action has gone is reflected in the fact that the British now are proposing the establishment in London of a special tripartite agency to deal with Germany's external assets in the neutral countries.

This clearly duplicates the already specifically designated field of operation of the Control Authorities GEPC, the only difference being that the Soviet Union is not included.

An aspect of this virtually complete bypassing of the German External Property Commission, is the fact that by virtue of the instructions of the State Department the operation of this Commission was stalemated in all significant aspects. Obviously, it was impossible to proceed with an organization of the External Property Commission until a determination was made as to whether it was to be split into

two units. The German External Property Commission could not proceed to discuss implementation of law 5 in any significant way because that was being done on a tripartite intergovernmental basis. You will recall the State Department gave us definite instructions to "reach no agreement without prior concurrence" in Washington. Both General Clay and I were particularly disappointed at the delay imposed upon us as a result of the State Department cable. We had counted on using the month of December, during which time the American representatives on the quadripartite directorates in Berlin held the chairmanships, to give the operation of the GEPC a vigorous push forward. Under the circumstances, we both agreed it was necessary to mark time inasmuch as we did not know the answer to the basic questions concerning the organization and operation of the GEPC. In spite of our representations of urgency, I am informed that this matter still has not been cleared up, although it is now 3 months since the passage of law 5.

During this period of immobilization of the quadripartite machinery in Germany, the three powers meeting in Paris, Washington, and London proceeded to advance the tripartite basis of organization and operation, without the assent of the Allied Control Authority, or its agent, the German External Property Commission. Thus, as of today, the Four Power machinery in Germany has been completely bypassed so far as the administration, operation, and policy with regard to Germany's external assets are concerned.

The State Department bases its case for division of GEPC on its "interpretation" of one section of the Potsdam Declaration and on the aide memoire exchanged with the Soviet Union in September 1945. The Potsdam agreement in its section on reparations provides that the Soviet Union "renounces all claim in respect of reparations to German foreign assets" in all countries other than Bulgaria, Finland, Hungary, Rumania, and eastern Austria. According to the State Department interpretation, this language includes all of the activities with regard to vesting and marshaling external assets in the countries enumerated. In other words, unilaterally they apply the Potsdam Declaration assignment of "spheres of influence" with regard to "claims for reparations" to the operation and policy aspects of vesting and marshaling German external assets. It is also contended by the State Department that this separation was further agreed to in an aide memoire sent to the Soviet Union on the 7th of September to which the Soviet Union replied on September 16, 1945, that it "had no objection." Although it has not been possible to see a copy of this aide memoire, either in Berlin or in Washington, Mr. Seymour Rubin, of the State Department, has stated that it merely reiterates the separation indicated in the Potsdam agreement so far as the disposition of Germany's external assets is concerned. Mr. Rubin acknowledges that under the memorandum the proposed division only applies to disposition of assets and does not include operational aspects of vesting and marshaling. However, he insists that this was the assumption made by the State Department as to the meaning of the aide memoire.

Curiously enough, in spite of ample means of communication, the State Department has never really sought clarification of this issue or specific acknowledgment of their real interpretation of the Potsdam agreement by the Soviet Union. In the cable sent during late January to the United States Embassies in Paris, London, and Moscow asking them to give information to the Soviet Union on this question, it is interesting to note that no attempt was made to secure specific clarification of the interpretation being made by the three powers regarding the split in the operation of vesting Germany's external assets. The entire development of tripartite operation in the field of vesting and marshaling of Germany's external assets has been without the assent of the Soviet Union and without significant reference to the Allied Control Authority or to the German External Property Commission.

Let me indicate to you why I believe the assumption of the State Department that Russia is not interested in the vesting of German assets is unwarranted. In the first place, it is perfectly clear that the language of Potsdam does not provide for separate operation of the Allied Powers in connection with Germany's external assets. Quite the contrary is true, for in the basic statement in regard to external assets it provides that steps shall be taken "by the Control Council to exercise control and the power of disposition over German-owned external assets." The division with regard to "claims and respect to reparations" is in a different category. If a different interpretation were to be made of these provisions of the Potsdam Agreement, a very specific and forthright clarification would have been required from the parties concerned. No effort has been made to obtain this.

It is significant that the Foreign Economic Administration in its final report of its Enemy Branch entitled "A Program for German Economic and Industrial Disarmament," specifically rejects the State Department application of the Potsdam Agreement provisions regarding reparations from Germany's external assets. This report, presented on December 19, 1945 by the FEA, which is now a part of the State Department, emphasizes the extent to which the language of the Potsdam Agreement has been distorted to create an excuse to avoid quadripartite action on Germany's external assets. In section 5 of the FEA report on "External Security Program," it is stated:

"In all countries, however, the primary purposes in the treatment of these German assets should be the removal of Germany's base for aggression.

"The division of German foreign assets among the greater powers into spheres of interest for reparations purposes set forth in the Berlin Protocol (see Appendix G, Section IV, par. 8 and 9), does not remove the necessity for reaching an international agreement—if anything, it increases it. If no agreement is made there would inevitably be a wide divergence in the treatment of assets and penetration problems with the certain result that the Germans would profit. They would seek to build their base on any weak points. A single weak point any place in the world outside Germany on this score presents a critical problem for world peace and security."

And further, it is emphasized:

"Regardless of the provision of the Berlin protocol regarding the division of reparations shares in German assets in eastern Europe and western Europe, the Allies still have a joint interest in seeing to it that German economic penetration in other countries is eliminated. A complete severance of German ownership and control of assets in these areas is indispensable to this objective. Indeed, it is important not only to sequester these assets from their former German owner but also to assure their administration or disposition into hands that are not cloaks or fronts for German interests. The freezing of these countries from German economic domination cannot be accomplished in the absence of the achievement of this result. Austria is a striking example of this point. The validity and effectiveness of a separation of Austria from Germany and its attainment of a status of an independent state will depend upon the purging of German ownership and control of property in Austria, and the erection of safeguards against any repenetration through the acquisition of important industrial, financial, or commercial interests by German nationals."

In the second place, at the second meeting of the GEPC on December 14, 1945, Mr. Denisov told me that he had discussed the question with representatives of the political division of the Soviet military government and had been told that they knew nothing of the agreement described by the State Department in the aide memoire of September 1945. Mr. Denisov further stated that it was the opinion of his political advisers and it continued to be the opinion of the Soviet member of the GEPC that the passage of law 5 superseded any previous agreement providing any arrangement other than that contained within law 5. He stated further that they interpreted the law to provide for quadripartite operation in all fields with regard to the vesting and marshaling of German external assets. Mr. Denisov stated that it was the Soviet intention to abide by the letter and spirit of the Potsdam agreement and that in this question they felt that quadripartite operation was clearly called for.

Of most importance in this connection is the passage by the Allied Control Authority of law 5, the vesting and marshaling decree, which without any qualification established an intergovernmental Four Power Commission, charged it with the responsibility and authority to take all action necessary to vest and marshal Germany's external assets except in the countries specifically exempted from the coverage of the decree. This law was passed, of course, with full knowledge of the Potsdam Declaration and must be assumed to be consistent with the Potsdam Declaration. It was signed by Generals Eisenhower and Koenig, and Marshals Zhukov and Montgomery, and should be paramount in the areas which it covers. To change the nature of the operation of this law, or its creation, the German External Property Commission would obviously require the approval of the four powers in Germany, the Allied Control Authority. Although such approval has never been granted, tripartite proceedings are already far advanced usurping the functions.

That the British did not have confidence in the rationalization of the United States State Department for excluding the Soviet Union from the neutral countries, although they vigorously sought the same objective is made perfectly clear in a cable of the 5th of December from the Ministry of Economic Warfare to

Washington transmitted from Ambassador Winant in London to the Secretary of State on December 8, 1945. This British cable discusses the proposed draft of a document governing the handling of tripartite meetings with the neutral countries on the subject of external assets. In a preliminary draft proposed by the United States it had been stated that Great Britain, United States, and France were acting in these meetings on behalf of the Control Council. The British cable proposed that these words be deleted because in their view their inclusion created the possibility that the Soviet Union could claim the right to participation and such deletion was, therefore, necessary in order to forestall any possibility of such a claim. The British stated that both the United States and French Governments would "presumably agree" that it was desirable that nothing should be included in these exchanges that "might conceivably lead to a Russian claim to have a say in this particular matter." On the 14th of December Ambassador Caffery advised Secretary Byrnes by cable that the French agreed with the British proposal to delete the words "acting on behalf of Control Council." It is my understanding that the State Department also agreed to the British proposal designed to keep Russia out of these negotiations.

It may be noted that at the end of this cable from the Ministry of Economic Warfare is set forth, as an afterthought, an additional argument against the inclusion of the term "on behalf of the Allied Control Authority," to the effect that these words should be deleted for otherwise it would be necessary to obtain approval from the Allied Control Authority and there is no assurance that the Soviet Union would approve this tripartite group acting on its behalf in connection with external assets in the neutral countries. Clearly, it was not the opinion of the British that on the basis of the Potsdam Agreement the Soviet Union would agree to being excluded from the operations in regard to external assets in the neutral countries.

I may also mention in passing that on December 14, 1945, the French and the British representatives on the German External Property Commission approached the American representative on the Commission and requested that we take joint action outside the quadripartite machinery to assure that the joint Four Power operation of the External Property Commission be eliminated and replaced by a divided east-west operation of that Commission. The French Representative, M. Renouf, indicated that officials of the French Finance Ministry were concerned at the Soviet Union's having "an eye into" certain countries such as Spain and Switzerland. The British member, Brigadier Greenshields, proposed that we three members get together informally and prepare a proposal for presentation to the German External Property Commission between the Soviet and the other three powers. By the very nature of their approach, in essence a tripartite caucus, it was perfectly clear that neither the French nor the British felt confident about the attitude of the Soviet Union in this connection and felt it necessary that we agree on a tripartite basis as to the steps to be taken to achieve the division of this quadripartite group.

Political purposes of split of GEPC

It is perfectly clear that at the very very least, the State Department has failed to take steps or to make efforts toward the solidification of four-power operation in this field. It is difficult to assess the motives behind this apparent desire to achieve a separation of the four allied occupying powers of Germany. The United States State Department teletype conference with General Clay and myself on the 15th of December stated that it was due to the "strong feeling in the State Department that complete quadripartite operation of law 5 in such countries as Spain might breed conflicts with respect to foreign policy which it is strongly desired to avoid." The French state their position for the separation of the four powers is to prevent the Soviet Union from having "an eye into" certain situations, such as Spain and Switzerland. The British most blatantly assert their overwhelming concern to avoid joint operation with the Soviet Union in the neutral countries. This unwarranted and diligent effort to disunify the four powers leads to a profound suspicion that it is being sought by at least some forces in the United States State Department and in the British and French foreign offices who are sympathetic to the creation of a Western Bloc versus the East. It is certainly clear that the actions taken are consistent with the creation of blocs in Europe and inconsistent with the thorough preservation of joint four-power coordinated activity in Europe. Furthermore, I charge elements in both the United States, British, and French foreign offices with consciously maneuvering to prevent all four powers from being involved in the search for external assets in the neutral countries because that would lay bare the Fascist or

reactionary regimes in countries such as Spain, Portugal, Switzerland, Sweden, and Argentina and would reveal all the elements of collaboration of certain interests in the Allied countries with these regimes. Such genuine quadripartite action would completely upset the applecart for plans of compromise regarding Germany's external assets in the interest of trade and commercial advantages, and in the interest of avoiding the creation of too radical regimes in the future.

Failure to develop effective drive for Germany's external assets

The net result of all these efforts to develop tripartite rather than quadripartite action in the crucial neutral countries has been to prevent an adequately effective drive for Germany's external assets. This task should be seen as a vital war task involving the defeat of the last economic outposts of the Nazi Third Reich. There should be no compromises or qualifications in the achievement of this goal. The four occupying powers of Germany with all the great moral, political, and economic power which they represent must move into each of the key neutral countries carrying a definite ultimatum to the neutrals that a thorough job be done of turning over all German assets located therein. We should no more compromise with the rooting out of camouflaged Nazi assets than we would have compromised during combat in the uprooting of a camouflaged German machine-gun nest. Instead of taking this vigorous approach, there is every evidence that it is our intention, and the British intention, to approach the neutrals with a "would you be so kind" attitude. There is a serious indication that it is the intention at least of some involved in this question to trade with the neutral countries on the question of Germany's external assets in return for concessions of one sort or another.

Perhaps the most crucial aspect of this question is the decision as to whether or not we will use sanctions to enforce our search for Germany's assets. As of today, there is no basis to feel that effective sanctions will be used. The British have rejected such a proposal. Having eliminated the Soviet Union from consideration of this question in the neutral countries and having indicated our reluctance to pursue sanctions on a unilateral basis, we have given the British a virtual veto over this weapon which alone could make our program effective. The British have given this veto. The neutral nations know about it and may be expected to respond to our demands with full knowledge of the limitations with which we back up our proposals. We cannot trick the neutrals on this score—only loaded economic guns will be effective. It is now more than 9 months since the end of the war and for more than that time, while we have been doing little or anything, the Nazi agents and their dummies in the neutral countries have been busily engaged in dissipating and recamouflaging the German assets hidden there.

Analysis of our accomplishments regarding external assets in the neutral countries will amply bear out the deficiencies of our program up to the present time. It must be recognized that the concept of neutrality in the conflict in which we have just been engaged is indeed a questionable one. Many of the neutral countries have political and economic systems geared to the Nazi framework and to the Nazi ideology and running directly counter to the democracy. The records of such countries as Spain and Argentina are too well known to require any exposition here. It is only necessary to draw the point, that effectively to root out the Nazi assets from such countries requires a vigorous and uncompromising approach.

I do not wish to take the time of the committee to outline in detail the complete failure of our program for the mobilization of German assets in the neutral countries. These details are well known to the State Department and the other agencies dealing with this problem. The Swiss Government, for example, has denied that the Allied Control Council has the authority or right to seize German external assets. The Swiss have even refused the Allies the right to take over German state property in Switzerland. Despite our protests, German property has been sold and is being further dissipated. In effect, the Swiss are handling the problem of German external assets as they see fit. The Swedish Government has followed the Swiss line by refusing to recognize our right to take over German external assets and are allowing many German enterprises to operate without restrictions, including those which formed an integral part of the German war machine. Little has to be said with respect to Spain. While the Spanish Government has in some respects qualified more than the other neutrals, there is no doubt that the weak-kneed approach to this Fascist Government has been nothing short of scandalous. Naturally, Franco has taken very few measures to uncover and mobilize German assets which have been carefully secreted in

Spain as a possible basis for a future war. The Portuguese Government has taken a similar policy and has also refused to permit the Allies to take over German state property. In brief, this was the situation at the end of 1945. Subsequent developments may have altered it in some few details but the fact remains that it has been 9 months since the Allied Control Council decree was issued and except for a few isolated instances no German assets have been taken over. Quite on the contrary, German assets in the neutral countries are being dissipated and further concealed to the detriment of our Allies and to world peace.

Conclusion

I submit that this is a very sad record. I do not know whether the United States State Department is permitting itself to be a pawn of the British, whether the situation is reversed, or whether this is just a "happy coincidence" of fears and prejudices in the international field. It is clear that behind the backs of the Allied Control Authority there has been secret conniving to avoid full four-power activity with respect to Germany's external assets. This activity coincides with an utter failure to formulate an effective drive to disarm the Nazis of their foreign economic bases and thus sacrifices on the altar of international power politics one of the purposes for which such vast human and material contributions were made from September 1939 to May 8, 1945. This action has already limited and seriously jeopardized the future unity of all the Allied Powers which is as vital in peace as it was in war.

I am informed that a few days ago General Clay conferred with the Soviet representatives in Berlin who confirmed their interest in full quadripartite action to disarm Germany of its external assets. General Clay has reiterated his position of opposition to tripartite proceedings on this question. Ambassador Murphy, after months of official silence, now agrees that it "was inconsistent" to proceed on a tripartite basis.

Mr. Chairman, recently you made the statement that you do not sympathize with the doctrine that "to the neutrals belong the spoils." I do not know whether this lack of sympathy is shared by those responsible for the present situation with respect to German external assets but it seems clear that unless our entire approach to the problem is changed that doctrine will be established.

I recommend, therefore, that immediate steps be taken to restore our operations to a genuine four-power basis, to bring about the active and equal involvement of the Soviet Union in the drive against German assets in neutral countries, and to formulate a hard hitting uncompromising program to make sure that no obstacles are placed in the path of this drive to disarm Nazi Germany and create security for the people of the world.

The CHAIRMAN. You were Acting Director of the Division of Investigation of Cartels and External Assets, Office of Military Government in Germany, were you not?

Mr. NIXON. Yes.

The CHAIRMAN. When did you take that over and how long were you with the Division and when were you separated?

Mr. NIXON. Well, I might tell you that in a little more detail.

In March of 1945 I was in an infantry reinforcement center in northern Belgium. I was separated from that reinforcement center and sent to the Finance Division of the United States Group Control Council in March 1945. I served as Chief of the Denazification Section of the Finance Division. Later I became Chief of the Financial, Intelligence and Liaison Branch of the Finance Division and then, in September, when the Division of Investigation of Cartels and External Assets—which we call DICEA—was created, I became one of the deputy directors. A few days after the creation of this Division, Colonel Bernstein, the director, left Germany and I became the acting director of that Division. Then, on the 1st of November, General Eisenhower appointed me the acting United States member of the German External Property Commission and I held that position until I left Germany on the 10th of January 1946.

The CHAIRMAN. All right, go ahead.

Mr. NIXON. I need to point out at the outset, Senator, that I am appearing before this subcommittee as a private citizen; consequently, I am not in a position to present to you the official documents that lie behind the evidence that I intend to bring to your attention. I would like to emphasize that all of the statements I make can be substantiated by documents which, I have no doubt, the War Department will be happy to make available to you at your request.

The CHAIRMAN. Will you give us enough identification so we may request them?

Mr. NIXON. I will be glad to do that and, if that is not sufficient, I can assist your staff in that respect.

The CHAIRMAN. All right.

Mr. NIXON. I would like to tell you about four particular points, and I might summarize those at the outset so we will know where we are going in my testimony.

The first point I want to make is that the directives to destroy I. G. Farben have not been carried out.

The second point that I want to make is that the United States officials responsible in the military government for developing a hard-hitting law to destroy German cartels and great concentrations of economic power have been basically opposed to this tough policy. As a result of their failure to properly represent United States policy, and in some cases their positive misrepresentation and sabotage of United States policy, the strong British opposition to an effective measure against German monopolies has prevailed and there is today no law in Germany to decartelize and decentralize the great concentrations of economic power which coauthored German Nazi aggression.

The CHAIRMAN. Were they not the foundation stone of German Nazi aggression?

Mr. NIXON. There is no question about that.

The third point I want to make is that contrary to official attempts, in many instances, to whitewash the record, denazification in the United States Zone of Germany is far from completed and even the limited accomplishments to date are in jeopardy through existing plans to turn the program over to the Germans. No program exists for handling the 100,000 Nazi leaders, SS men, and Gestapo agents held in prison and their ultimate punishment is gravely in doubt. In direct violation of orders, the great industrial and financial partners of the Nazis have not been arrested and their ultimate trial and judgment is very unlikely.

The fourth point I want to make to you has to do with Germany's external assets and the controversy that has arisen around that subject. I want to present evidence to you that, in order to go easy on countries like Spain, Argentina, Portugal, Switzerland, and Sweden, the United States State Department and the Foreign Offices of France and Britain have engaged in secret conniving to prevent participation of the Soviet Union in the search for German external assets in these areas.

The maneuvers to split the quadripartite German External Property Commission into "eastern and western units" is only consistent with and reinforces the tendencies that already exist in Europe to create eastern and western blocs. This State and Foreign Office action flaunts the authority and machinery of the Allied Control Authority,

established in this field by Generals Eisenhower and Koenig (of France) and Marshals Zhukov and Montgomery. By thus failing to adequately implement in a vigorous fashion the four-power action against Germany's hidden foreign assets we are tragically permitting the preservation for Germany of an external economic basis for a third world war.

The CHAIRMAN. Let me ask you a question at that point. You feel that the objectives set forth by the four military leaders, if carried out, would be satisfactory, but they are not being carried out; is that it?

Mr. NIXON. That is precisely it. And I would like to present the detail indications behind that statement as I come to that part of the testimony.

The CHAIRMAN. In your work over there, did you find that there were certain elements in American business and in British business that really looked forward to cooperation with German business after things settled down? Or that their activities indicated that?

Mr. NIXON. I think there is serious indication that that attitude prevails among the British and United States representatives in Germany.

The first subject that I want to talk to you about in a little more detail has to do with I. G. Farben. As you know, in July 1945, the United States military government issued a general order directing that, in the case of I. G. Farben, the facilities of Farben should be made available to the devastated nonenemy countries in Europe and to the United Nations, and they stated further that such of the facilities of Farben as were not made available as reparations should be destroyed and that the ownership of Farben should be dispersed.

Then a special order was issued appointing a control officer for Farben, who, pending the assumption of control of Farben or Farben properties by the Allied Control Council, was given the specific responsibility to carry out this obligation.

The CHAIRMAN. Wasn't the reason Farben was singled out in that instance that it was the central core of the entire cartel system and had really been a military asset more than an industrial asset?

Mr. NIXON. I know that Colonel Bernstein has presented to this committee overwhelming evidence that this was not merely an industrial concern but was a true partner of the Nazi Reich and Wehrmacht. That was the basis for the selection of I. G. Farben for this particular action, very precisely spelled out in the orders of July 1945.

As the months went by, from July on, there began to be a feeling of discomfort among many of us, who observed the situation there, that the orders were not being carried out and consequently we determined in DICEA, in November, to make a survey of just what had happened in the case of I. G. Farben to carry out the directives. At the same time, Mr. Dodge, who is Director of the Finance Division and who had the responsibility for Farben, was beginning to be very concerned at the failure of the control officer, Col. E. S. Pillsbury, to carry out the directives and he likewise had in mind the institution of a similar investigation. He had had certain difficulties with General Draper, Director of Economics Division, with regard to certain of the I. G. Farben plants, particularly the Reich-owned, Farben-operated Montan plants, and particularly among them, the poison-gas plant down at Gendorf, where he had been urging that this plant be immediately

made available for reparations and destruction and that production there be stopped. On the other hand, General Draper was insisting that it was necessary to continue, for at least a certain period of time, production in the Gendorf plant.

The CHAIRMAN. What kind of production were they carrying on?

Mr. NIXON. They were carrying on the production of antifreeze. They had produced antifreeze during the war as a byproduct of mustard gas which they had produced and it was the desire of General Draper to continue the operation of this plant to produce this antifreeze.

The CHAIRMAN. Was it necessary for them to produce mustard gas, too?

Mr. NIXON. No; although the capacity to do that remained.

The CHAIRMAN. It could be converted into mustard gas overnight?

Mr. NIXON. Yes; the basic facilities remained unchanged.

The CHAIRMAN. Was there any similarity between the antifreeze used there and Prestone or similar antifreeze products which we use?

Mr. NIXON. I am delighted to say that that is a question about which I know nothing.

The CHAIRMAN. Was it made from alcohol?

Mr. NIXON. No, I don't think so. I don't know the technical process of the product.

In addition Mr. Dodge was disturbed at some of the indications that I. G. Farben plants were receiving preferential treatment in procuring oil and other supplies and he protested against this preference. We had set up a control officer in every I. G. plant and instead of vigorously carrying through the destruction and reparations provisions they became interested in production and they became lobbyists for their particular plant to get coal or other facilities for production. Mr. Dodge protested against this.

When we discovered we had a joint interest in this thing, we resolved to carry out more or less parallel investigations. The investigation of DICEA was directed toward an analysis of the reports of the control officers from each one of the I. G. plants. The investigation carried out by Mr. Dodge's inspection teams was addressed particularly to the fourteen Montan plants. Those are plants that were financed by the Reich, were owned by the Reich but were operated by Farben.

The CHAIRMAN. In other words, that was the German's defense plant corporation.

Mr. NIXON. Exactly; that is what it was.

On the 17th of December we brought out the results of these two parallel investigations. These investigations reveal not only a complete failure to carry out the orders of July 5, 1945, but also deliberate violation of these orders by contrary action. What I would like to do is to summarize for you the findings of each one of these investigations.

I would like to talk first about the DICEA investigation. [Reading:]

Our investigation disclosed that of a total of 55 I. G. manufacturing plants in the United States zone, 2 were destroyed and 3 had been declared available for reparations and destruction. None of the I. G. Farben-owned or affiliated plants had been eliminated either by destruction or by making available for reparations.

The operation was entirely on the Montan plants.

We discovered also that almost every one of the I. G. Farben plants in the United States zone was producing. Capacity that was added exclusively for war production had been brought into operation for the production of so-called peacetime goods without any indication as to the need for such production and without any proof that the particular goods could not be provided by other plants which normally produced those goods in the past.

We also discovered that there was a general disinclination on the part of the I. G. Farben control officers—these are American military officers—to indicate the availability of their plants for reparations. With a surprising degree of uniformity these reports came in arguing that this plant was needed, that there was nothing here for reparations and it should not be made available for reparations.

In addition we found that there had been no effective action taken to decentralize Farben and disperse its tremendously concentrated power. On the other hand, we found that these reports claimed that the operation of various of the I. G. Farben plants had to be integrated. [Reading:]

This reported need for integration is based upon purchasing or sales advantages, despite the fact that there is an assured market for the production of the plants.

Of course, these are the very factors that should not be considered in permitting reintegration of I. G. Farben plants.

The CHAIRMAN. Let me ask you a question. From your study you found that out of this enormous number of plants there were only five—the five Montan plants—that had been destroyed or declared for reparations?

Would the consumption of those plants be used in Germany, or would they be building up potential export capacity on a large scale?

Mr. NIXON. The rationalization which we constantly ran into for not making these plants available for reparations or for destruction was that their product was going to be needed for export in order to maintain a certain assumed standard of living in Germany. That was the general rationalization for that action.

The CHAIRMAN. In other words, building up competition for our own industry and British industry in Germany?

Mr. NIXON. That is right. There is no question about it. Before the war Farben exported a vast proportion of its products.

The CHAIRMAN. Are there any foreign-owned Farben stocks or bonds that showed up on the books?

Mr. NIXON. Yes; there is some foreign ownership of Farben. I think that Colonel Bernstein presented to you an estimate of the various holdings. However, they are not significant. Farben is a German operation as far as the basic operation is concerned.

The CHAIRMAN. What I am trying to get at is the underlying causes of this effort to preserve Farben. Could external financial interests be interested in preserving Farben?

Mr. NIXON. I think it has to be hooked onto a larger orientation than the German problem. There is a general interest—for perhaps varied reasons—in maintaining an industrial economy in Germany. I think some interests in our own country and elsewhere have the idea that, if they didn't own Farben, they would nevertheless get an interest in it, that their connection there would permit them to maintain

profitable relations with the German chemical industry as they had done in the past. I think there is no question about that.

The Finance Division, which conducted its investigation independently and went into the field and visited the plants in Germany, plant by plant, corroborated the general conclusions of the DICEA investigation and they reached the conclusion—

that there were at least five distinct indications of the regrowth in the United States zone of Germany's greatest single instrument of economic aggression. First, the report noted that with the exception of most Montan plants and those plants damaged in the war (which incidentally were very few), there were no discernible limits on production in Farben plants, except the limits imposed by shortage of materials, and all requests for production authorizations were approved without exception. These production schedules, according to the Finance Division, were prepared for each plant by the German management and were automatically approved by responsible military government officials of the Economics Division except in cases where these officials proposed higher production schedules.

That is the first point. [Continuing:]

The second evidence of Farben's regrowth cited by the Finance Division was the fact that Farben control has followed lines prescribed before the end of the war by Farben officials themselves as an adaptation to the facts of defeat and occupation. This conclusion was based in part upon a letter from Max Ilgner, one of Farben's key officials, written in May 1944 while under detention, to two of his associates in the Farben central finance department. He instructed them to keep in as close touch as possible with one another and with other Farben leaders. He predicted that the American authorities would eventually permit resumption of I. G. operations and stressed the need for keeping the organization alive in expectation of this development.

The CHAIRMAN. Wasn't he the one who built up the intelligence service?

Mr. NIXON. Yes. He was the head of unit 7, which had espionage units throughout the world. I received that letter myself. It was sent through certain channels up to Frankfurt and his desire was to have the letter delivered to Frank Failler, his chief associate and, I think, to Dr. Schneider, telling them how they should handle themselves and adjust themselves to the fact that they were going to be under occupation, that certain things were going to happen.

In addition there was an official named Orth who had been the Farben sales manager for Bavaria for many years. He prepared a plan for I. G. Farben's operation in Bavaria in the event of Germany's defeat. This plan was prepared before the end of the war. This man is today in Munich and is again the sales manager for the Bavarian plants, including Gendorf. He is busily at work applying, under the existing circumstances as best he can, the program he developed before the war, anticipating defeat.

The third point in the report of the Finance Division was that the—

lines of connection among the now supposedly independent I. G. plants are being reestablished in part through the natural interdependence of plants in the chemical industry, but in part through the design of Farben leadership.

Fourth, the dismantling and demolition have thus far been on an extremely limited scale. There has been virtually no dismantling.

Fifth, they found that some materials, such as office furniture and equipment, are being turned over to Farben-owned plants from the Montan plants which are being made available for reparations and for destruction. They make a Montan plant available for repara-

tions and in the process of doing that they go in and pick up certain things they want, such as office furniture, and transfer those to the Farben-owned plants. In a sense there is a Farben restitution program going on rather than a restitution to the occupied and victimized nations.

The CHAIRMAN. Rather like a Farben exploitation program.

Mr. NIXON. Yes, sir; the continuation of a Farben exploitation program. [Reading:]

That these developments run counter to established American and quadripartite policy is quite clear. They are violations of the directives of July 5, 1945, and they are violations of the document which those directives purported to implement, namely, JCS 1067.

You know about that. [Continuing:]

Paragraph 32 of JCS 1067 stated: "Pending final Allied agreements on reparation and on control or elimination of German industries that can be utilized for war production, the Control Council should (a) prohibit and prevent production of iron and steel, chemicals, nonferrous metals, (excluding aluminum and magnesium), machine tools, radio, and electrical equipment, automotive vehicles, heavy machinery and important parts thereof, except for the purposes stated in paragraphs 4 and 5 of this directive."

Briefly, that exception refers to production that is required to maintain goods and services required to prevent starvation or such disease and unrest as would endanger those forces.

JCS 1067 further states: They should "prohibit and prevent rehabilitation of plant and equipment in such industries." It also states that they should "safeguard plant and equipment in such industries for transfer on reparation account."

A little later on, 1067 states that "Control Council should adopt a policy permitting the conversion of facilities other than those mentioned in paragraphs 30 and 32—"which I have just read—to the production of light consumer goods." The point is that this says this is to be permitted in industries other than the chemical industry.

Of course, in violation of that, they have been concerned with finding alternative methods of production, alternative outlets for the productive capacity of Farben. This has been an activity of I. G. Farben control officers appointed by the United States Government. There has been a rush of pharmaceuticals in Germany. Everybody wants to produce pharmaceuticals in Germany. It is a pleasant and interim means of keeping Farben in operation. It is a clear violation of the directives.

When Mr. Dodge submitted his report of the Finance Division, our staffs jointly worked out a set of recommendations. They were submitted in Mr. Dodge's report. They had been the joint product of our staffs and we concurred with these recommendations in our report.

The recommendations were first, that—

all wartime additions to I. G. Farben-owned affiliated, or operated plants shall be declared available for reparation of destruction and shall be dismantled. Second, all I. G. Farben-owned, affiliated or operated synthetic rubber and metals plants will be set aside and immediately dismantled. Third, non-Farben plants will be given priority in production. (Farben production and production capacity were to be further reduced or eliminated according to a specified formula set forth by the Finance Division) Fourth, in all plants set aside for dismantling, all underground installations used for key equipment, such as power equipment, will be destroyed, after all equipment which could be used for peacetime production has been dismantled.

V. All I. G. Farben-owned, affiliated, or operated plants, not dismantled or set aside in accordance with the foregoing, will be available for operation under centrally controlled authorizations, pending determination of the final reparations program, and subject to any standards that may be established by the quadripartite I. G. Farben control committee. Non-I. G. Farben plants producing products which have been produced also in I. G. Farben-owned, affiliated, or operated plants shall be made available for reparations only after the I. G. Farben plants have been made so available. During the interim period of determination of final availabilities for reparations, a plan shall be prepared for the dispersal of ownership of the I. G. Farben-owned, affiliated or operated plants that may be retained in the United States zone, providing for the ultimate disposal of all such plants with no common ownership of any two plants.

Now I should like to indicate to you the reactions to these reports. I should like to point out, first, that the day before these reports were submitted, General Clay sent to the War Department a report of the plants in Germany, in the United States zone, that had been made available for reparations, and this corroborated our finding as to the number of plants that had been made available for reparations or had been destroyed.

Further, on the 25th of December (we worked on Christmas over there) General Clay sent me a memorandum which stated that he had taken specific steps to reaffirm the general order to destroy Farben and that he had given instructions for the immediate designation of a substantial number of nonmilitary I. G. Farben plants in the United States zone as available for reparations.

Subsequently, on the 16th of January, according to newspaper accounts, General Draper held a press conference in which he announced that (1) two explosive plants had been destroyed since the occupation. These are the same two plants which were referred to in the Finance Division's report and in our report and which are Reich-owned and Farben-operated. That the 12 other Montan plants, which were ordered destroyed well over 2 months ago, are in process of being dismantled or made available for reparations. Finally, that several other plants are being declared available for reparations.

I would like to make a comment to this effect, that there has been a tendency to overemphasize what has been done with regard to Farben and to underemphasize the importance of Farben in the United States zone. You may recall, to go to the last point first, the statement before your committee that there is only 9.75 percent of Farben in the United States zone, that really the United States zone isn't very important to Farben. Those are very misleading facts. They refer merely to 100 percent Farben-owned or 100 percent subsidiaries of I. G. Farben, merely to those plants. Out of the 42 manufacturing plants in the United States zone, with more than 100 employees, this 9.75 figure refers to only 13 plants. If you put them all together (by putting them all together I mean all of the Farben plants, the subsidiaries which she controls, Dynamit A. G., which is an important subsidiary, and the Montan plants) you get in the United States zone an employment in Farben of at least 75,000. There can be no question about this figure. This means that Farben employment in the United States zone—and I think this is a fairly reliable measure of the importance of Farben—is between 25 and 30 percent of the total of Farben employment in Germany. The 10 percent figure, the 9.75 figure, misleads us and has been used very broadly to deemphasize the importance of Farben in the United States zone.

The facts are to the contrary. We have from 25 to 30 percent of Farben in the United States zone.

The CHAIRMAN. How much of it is in the Russian zone?

Mr. NIXON. I couldn't give you a calculation based on this same set of figures, because I haven't the data. There is a substantial proportion in the Russian zone. I couldn't tell you, Senator.

The CHAIRMAN. Where is the greatest Farben employment?

Mr. NIXON. I rather imagine that the greatest number of employees is in the Russian zone.

The CHAIRMAN. Greater than the American zone?

Mr. NIXON. Yes.

The CHAIRMAN. How does the British zone compare?

Mr. NIXON. I think the British zone is probably a little less than ours. You see, we have given you the exact figures so far as the calculation—

The CHAIRMAN. Of course, you realize our military government could do nothing in the British zone. Were the British carrying on about as we were, or even to a lesser extent?

Mr. NIXON. I would presume even to a lesser extent, because they are not getting the same kind of pressure that they have gotten in the United States from this committee.

The CHAIRMAN. Is there anything in the French Zone?

Mr. NIXON. Yes, there are some important installations in the French zone, but likewise they are not carrying out an effective program. Obviously, we have to talk about the zone we know about.

The CHAIRMAN. Certainly; and the only zone in which we can actually operate.

Mr. NIXON. But the point I want to make is that our zone is not unimportant. This is not a 10-percent zone. It is 25 or 30 percent. If you look at it from another point of view, the bases of the old units of Farben are in our zone, in the French and the British zones, and are not in the Soviet zone. In the general removal of plants—

The CHAIRMAN. Was the headquarters of Farben in our zone?

Mr. NIXON. Yes, sir; Frankfurt. But in the general relocation of German industry, the new plants were located over in the Russian zone. These are the purely war industries—the light metals, the synthetic rubber, the heavy stuff—which automatically come up for destruction. The basic units of Farben, the old plants, the basis of the German cartel before the war, are in our zone, the French and the British zones, and a very, very major part of it in our zone. We cannot avoid the implications of responsibility in the Farben problem for the United States by referring to the 10-percent figure.

The CHAIRMAN. The management of these plants is in German hands, isn't it, in our zone?

Mr. NIXON. Yes, under the supervision of a control officer.

The CHAIRMAN. Is that the old management of the plants?

Mr. NIXON. By and large it is, sir.

The CHAIRMAN. You have the same picture there that we had in Italy, where our people said they couldn't operate because the Italians had hung all the Fascists and they couldn't get a plant in operation without Fascist management.

Mr. NIXON. They can't even claim that in our zone.

The CHAIRMAN. They still kept the same group?

Mr. NIXON. Yes. Presumably they have instituted denazification. I would like to say a little bit about that as I go along.

The CHAIRMAN. Sort of like a delousing program, isn't it, in which they use a little DDT?

Mr. NIXON. DDT is much stronger than the denazification program.

The CHAIRMAN. You know how they squirted DDT down the back of your neck. I thought possibly the denazification program of the management was similar to the delousing.

Mr. NIXON. The DDT is good stuff. I don't like to compare our denazification record with DDT. As a GI, I am partisan to DDT.

The CHAIRMAN. It was simply a surface delousing and didn't go internally; is that it?

Mr. NIXON. That is right, but it was very effective, Senator, in killing the louse.

Just one other point. There is a tendency to take these Montan plants and the action that we direct toward them and use that to cover up our failure really to get at the basic old-line Farben institutions. The figure was quoted by General Draper that they included 52 percent of the capacity. That is true if you include the Montan plants, but if you look at the 27 plants which are non-Montan plants, those that are really I. G. Farben plants, only 7 out of the 27 have even been made available for reparations. The employment figures are something like this: 31,000 employment capacity has not been touched by reparations, and only 6,000 employment capacity has even been made available for reparations, out of the old Farben-owned plants in the United States zone.

The CHAIRMAN. The Montan plants were largely munitions plants, weren't they?

Mr. NIXON. Yes, sir; pretty largely. I think there is one machine-tool plant. By and large, they were purely war plants. They were all built after 1936 for war production as a part of the war program, but of course there was tremendous expansion connected with the war in the old-line I. G. Farben plants. There was no effective effort on our part to define and draw a line how much of this was war stuff and how much of it wasn't, and how much of it we should get rid of to destroy the war potential.

You mentioned the question of why these things happened. When you get into the realm of motivations, perhaps you are a better judge than I of these things. I would like to mention just one case that may be of interest to you that perhaps gives you a little crack in the door, why some of these things are happening. It is the case of Carl Peters. Carl Peters has been removed from Germany because of his relations with I. G. Farben officials which threatened a major scandal. It is my judgment that a real attempt has been made to cover up the operations of Carl Peters. Carl Peters was with the Advanced Solvents Corporation before the war, the American affiliate of I. G. Farben. He was involved in an antitrust proceeding which was taken against several Farben affiliates. The action against him was nolle prossed when he entered the Army and became a colonel over at the Pentagon Building. A little later on, as a civilian, he was sent to Germany on the staff of Fiat, hired initially by the Foreign Economic Administration. He went into Germany and, according to records which you

can get from the Counterintelligence Corps, engaged in numerous relationships with top I. G. Farben officials. It is the opinion of at least some of the counterintelligence operatives that Peters has been engaged in dealings with the Germans looking toward renewed interconnections among the German Farben concerns and the American interests. We know that he discussed with high Farben officials the resumption of production in Norsk Hydro, a Norwegian plant taken over by I. G. Farben during the occupation.

They held Peters on two presumably minor charges, of having acted as a letter-drop for mail between Germans and of having allegedly brought unauthorized Germans into his quarters and given them food.

The serious part of this is that all this operation was for high I. G. Farben officials. He talked with top people, such as Dr. Von Knieriem and Dr. Bosch, the son of the former head of I. G. Farben.

It is my understanding that Peters has been quietly removed from the German scene, but I think that this is a matter which justified very serious investigation, and it is perhaps a case which gives us a little view of the kind of influence that probably is being brought to bear in the underground of the operations in Germany.

The problem we have also had in the operation with Farben is very fine words, good expressions of intention, and very little action. There is no excuse in the case of Farben for having made available out of the basic Farben plants only 7 of the 27 plants. This is getting close to a year after the end of the war. Farben has been investigated more than any other plant. We know all about Farben. Its criminal nature has been thoroughly exposed.

The CHAIRMAN. We have had available the records with which we could do that.

Mr. NIXON. Of course, sir. What we have lacked over in Germany is a staff directed to this problem, who has the desire and enthusiasm really to go in and do a job of disarming Germany. Instead, we engage in a lot of debates on a high economic plane, of the German level of industry and German standard of living, and we put a lot of these questions in a predominant role over and above the basic question and directive of really destroying Germany's war potentials.

That is what I wanted to say to you on the case of Farben. I would like to tell you a little bit about the efforts and the results of the four powers.

The CHAIRMAN. What about Farben stock going up about 21 points after Farben's destruction had been officially announced?

Mr. NIXON. I am glad you mentioned that. I meant to mention that. I think that the rise in the stock market of Farben made good sense. I. G. Farben should be rising on the stock market in Germany. It rose because the people of Germany really knew what was happening. They lived next door to the I. G. Farben plants. They know that Farben was not being broken up. I would only suggest that the way to handle that problem is not to take the stock off the market and prevent its quotation; in other words, not to hide from the people of the world this one index of what is happening to Farben.

The CHAIRMAN. Then you agree with me that that was not just a little frenzied buying on the market, but actually was based upon some sound analysis of the possibilities of Farben?

Mr. NIXON. Absolutely.

The CHAIRMAN. Of course, the other excuse has been put up to me frequently when I have asked about it.

Mr. NIXON. It is just not borne out by the facts. You can look at the facts in the case and find evidence for optimism about Farben, if you are a German buying stock.

The CHAIRMAN. In other words, Germans don't play the stock market as a game. They play the stock market systematically. They play it as they played war. They are serious.

Mr. NIXON. I would like to tell you about the efforts on the quadripartite to pass a law requiring the decartelization and decentralization of the great concentrations of economic power in Germany. As you know, the Potsdam Agreement required that—

At the earliest practicable date, the German economy shall be decentralized for the purpose of eliminating the present excessive concentration of economic power as exemplified in particular by cartels, syndicates, trusts, and other monopolistic arrangements.

Despite this clear directive, there is today no law in Germany requiring the decentralization and the decartelization of the great concentrations of economic power in Germany. This has resulted from a perhaps complex situation that I would like to describe to you as simply as possible.

At the outset I would like to point out that it is true that on November 27, 1945, the United States, the Soviet, and the French representatives in the military government there agreed on a draft of a law which would be effective to this end, and that the whole operation is now stalemated by the vigorous opposition of the British to the passage of an effective law. It is necessary for me to emphasize to you, however, that the failure to get this law is not merely the result of British opposition, but follows from the fact that the United States representatives given the responsibility of getting this law, at least in the initial stages lasting for two or three months, (1) did not push the United States policy, (2) in many instances vigorously opposed that policy and undermined that policy with reference to the other members of the quadripartite group, and (3) they have advocated emasculating compromises and created confusion which makes a major contribution to the situation we have today of failing to have passed this particular measure.

The CHAIRMAN. From your study over there, is it your considered opinion that the centralization or monopoly of industry in Germany brought about by the cartel system, speaking there of the internal cartel system, was what was really their No. 1 war potential? The centralized control of all industry made them capable of a war of aggression?

Mr. NIXON. We have found that the extraordinary concentration of finance and industry in Germany made it possible to develop the totalitarian impact of their war in a degree which would otherwise have been impossible. When the Nazis came to power, they did not have to centralize German industry. They did not have to —

The CHAIRMAN. They didn't need to have a War Production Board. They already had it built up.

Mr. NIXON. It was there, ready for their utilization. I shouldn't put it that way, perhaps. I should put it, rather, that this concentration existed and moved with the Nazis in coordinated activity to develop the Nazi system, to bring the Nazis to power, because they

had visions of extending their monopoly power, of extending their wealth and extending their control throughout the world, and they realized that to do that you had to join up with the forces in Germany any that were sympathetic with aggressive warfare and that were unsympathetic to the development of the German Republic.

The CHAIRMAN. Then, do you agree with me in the theory that monopoly raised to the *n*th degree by cartelization makes it absolutely necessary for one of two things to happen, either for government to take over business or business to take over government?

Mr. NIXON. It certainly moved in that direction in Germany.

The CHAIRMAN. You get a totalitarian state as a result of that. Either way it moves, you get totalitarianism.

Mr. NIXON. I think that is an inevitable consequence.

The CHAIRMAN. Isn't that a disadvantage rather than an aid to the economy of the German people as a whole—being removed from competition and having everything centralized in a small group?

Mr. NIXON. It deters for many economic reasons, and then it deters in an overwhelming way because of the inevitable drive to an aggressive war, which has brought such horror to the German people twice in three decades. There is no question about it.

The CHAIRMAN. We get back to Woodrow Wilson's old thesis that a nation is a strong nation with a great number of rich men in it, but it gets in a dangerous state when it has a few very rich men controlling.

Mr. NIXON. That is right.

This issue is reflected, I think, in the matter I now want to go into a little bit more in detail. I don't intend to go even into the detail that I have in the statement here, of some of the perhaps complicated quadripartite legislative negotiations, but I would like to describe the issue to you. The issue that arose was whether or not you are going to pass a really effective law against excessive concentration of power in Germany or one that would not be effective. The effective law, I think it is generally agreed, would be one that would be a mandatory law. Such a mandatory law would say, "An excessive concentration of economic power is defined by A, B, C. Excessive concentrations of economic power are outlawed. They will be destroyed. If there are any special cases, they have to come in, make an appeal, and ask for exemption." That was the general outline of the mandatory law. That was the basis of the law which subsequently came to be the law supported by France, the Soviet Union and the United States.

What I think is properly indicated as an ineffective law is a non-mandatory law in which you indicate generally certain tests, without great specificity of what a cartel is and what is excess size and what is excess concentration of power. Then you say that you are going to set up a board that will look at the Germany economy, and they will pick out the ones that they decide are excess and make plans to destroy them. It is a separate, different way of going at the problem.

The first proposal was supported by the Soviet Union, who proposed that a definition should be 3,000 employees and 25,000,000 reichmarks turnover, and by the United States, which added to these tests the proposal that production of more than 10 percent of the product in any field should be a further test.

The nonmandatory law was proposed by the British, who at the same time tried to make the point that size was not really a bad thing in and of itself, and maybe you should not go so hard on the big units in Germany, and also that you have to hedge the prevention of cartels for Germany because of the necessity of Germany's having an opportunity to engage in national trade.

The basic United States policy with regard to cartels is very clear.

The CHAIRMAN. To engage in international trade outside the sterling bloc. Would you find that additional string on it?

Mr. NIXON. They didn't say that.

The CHAIRMAN. They didn't say that, but that is what it would mean, wouldn't it?

Mr. NIXON. I suppose that is true. They certainly were interested in preserving some international trade basis for Germany, and I don't suppose, Senator, that it was an international trade arrangement which would do harm to Britain, not in their assumption; quite the contrary.

The United States policy basically was always tough——

The CHAIRMAN. The effect of that, however, is to build up competitors for us and for Russia in international trade.

Mr. NIXON. I think that Britain was interested in the potentialities of profitable international trade with Germany. There is no question about that. And they were willing to compromise the prohibition of Germany's participation in international cartels in order to get that end.

The United States policy in this regard has always been tough from Washington. We were strong for prevention of cartels and for destruction of the German cartel organization. Unfortunately, the United States representatives charged with the work of carrying out this United States policy and implementing it in the legislative conferences did not share this policy.

Let me say at the outset that it is my judgment that General Clay did agree with the tough policy, and in all my work with Clay on this problem I never found any indication from him that he was not going down the line for a tough policy. I have to say that at the outset. But below him, his officials were sabotaging his policy. How were they doing it? Perhaps I had better say who they were. First, of course, is General Draper, the head of the Economics Division, former Dillon, Read official; Mr. Laird Bell, a corporation lawyer of Chicago, of the Liberty League stripe, who was the Deputy Chief of the Economics Division, who was the United States member on the working committee to prepare this law, who since he has come home has talked a great deal and made it very clear that he disagrees with Potsdam and JCS 1067 and the entire United States policy, but at that time he was the man doing the job; a Major Petroff, a Russian speaking United States Major, former lawyer with General Motors Corp.; Lieutenant Colonel Bowie, of General Clay's staff; and a member of Mr. Murphy's staff.

Generally speaking, they took the attitude that to apply the really tough mandatory law was being too tough with Germany, that this was a part of the hysterical Morgenthau approach, that that was a blind program to tear up Germany, that it would reduce the level of the German economy too much, that if you did that Germany

couldn't pay for imports. I recall one of the officials, I think on Murphy's staff, asking me one day, "How could Germany manage to live without the Siemens Corp.?" That was their general orientation.

As a result of this, they failed to push the United States policy and to support the mandatory law. They misrepresented the United States position to other powers and attempted to change the Soviet position of support for the mandatory law. They specifically went to them and indicated, "We didn't really mean it when we referred to our support for the mandatory law." It was reported to me that Major Petroff, on the specific instruction of Ambassador Murphy, went to the Soviet representative and tried to get them to move their position away from support of the mandatory law. Likewise, General Draper himself told me that at one point in the operation he was going to the Soviets and trying to get them to change their position in support of the mandatory law—this, mind you, at a time when we had developed for years in the United States a tough policy with regard to German cartels.

In addition, they created confusion. There were incorrect minutes written, which confused the entire situation and led to delay and weakened the efforts to get a tough law.

Finally, these same forces attempted to get Washington to relax the policy by expressing excessive defeatism, telling them it was impossible to get a tough law and trying to get them to give them permission for a weaker position.

In the midst of all this, there developed what I think you might call the duel of the cables. This little duel of the cables was a four-way cable exchange, with the people I have mentioned sending cables to the United States telling how bad the thing was and how we have got to change our pushing for a mandatory law, and "Won't you let us abandon these mandatory measures?" That was on the one hand. On the other hand, DICEA was sending cables over here saying, "Look, the whole mandatory program has been jeopardized, and confusion has been created. It is essential that we have from the United States a clarification of the entire policy of the United States." We managed to get word over here of the situation and, as a result, what we call a TWX conference was called on the 24th of October, a teletype conference. In Berlin there were General Clay, Mr. Murphy, Mr. Bell, Major Petroff, Mr. Fahy, the legal adviser, Mr. Heath, and myself. In the United States there were the representatives of the State Department, the Justice Department, the Treasury Department I believe, and the War Department, connected with this problem. At the TWX conference Washington gave us definite instructions to support a mandatory law, and it was to be assumed at that point that the matter was closed. All right, now at least we are cleared up, and we will go ahead and get a mandatory law.

At this teletype conference, which lasted for about 4 hours, Mr. Murphy had nothing to say. Later, evidently he wired the State Department through his own means of communication and received from Byrnes a cable in answer which was very confused and which gave permission to do two of the most effective mandatory tests and suggested that we retain the third; that is, the percentage of control in any field as the sole mandatory test. This change in instructions from the State Department came at the same time that

we had reached agreement in the Legal Division finally upon a mandatory law. So, we found ourselves in the Legal Division in the position of drawing the law, getting it in mandatory form, fighting out agreement on that, and at the same time, as a result of Murphy's cable, getting an alteration in the United States policy which was a retreat from the basic mandatory position.

What Murphy sent to Washington, I don't know, because when I asked to see the cable I was told that it was a secret cable, so I didn't see it.

This heightened the confusion, and on the 3d of November Mr. Fahy sent a cable asking, "What now?" On the 5th of November, as a result of a little side meeting held by Major General Echols and General Draper and Mr. Fahy, perhaps two or three others, in which DICEA was not involved, they decided to send a cable asking for permission to drop all the mandatory tests in the quadripartite operation, except the one on percentage of production. You recall that at this time General Clay and Mr. Murphy had come to the United States. So, when I saw that cable, I sent a cable immediately saying that there was terrific confusion, that the whole United States policy was being jeopardized by the confusion and by the efforts to abandon the mandatory position. I said that as long as Clay and Murphy were there, they should be gotten together and the matter should be cleared up. Consequently, on the 6th of November, General Clay, from Washington, sent a cable back to Berlin in which he said, "Maintain the mandatory tests, and do not drop them except as a very last resort." The cable, of which you can get the text if you wish, I presume was a hard-hitting cable indicating "Stick to your guns for a mandatory test."

This presumably cleared up the matter as far as we were concerned, after a big flurry of trying to get, in my judgment, the officials charged with this job really to stick to the track as far as our policy was concerned.

After that we went through a rather interesting period in which we were told that the Soviets then were opposed to the mandatory law. This was made a little difficult by the language question, but after some real efforts on our part, it was clarified that the Soviets didn't oppose the law, that they were vigorously in support of it, that they wanted a hard-hitting mandatory law, and that the confusion that resulted had been the confusion created by having such a shift in policy on the part of the United States and by having one United States representative saying that this is the policy and another United States representative saying that something else is the policy.

This was subsequently clarified, and in the coordinating committee, on the 27th of November, General Clay brought the matter up again, and at that time there was agreement of the three powers on behalf of the mandatory law, but the British refused to support that law. Consequently, General Clay withdrew the law, with the statement that it would be necessary now to have governmental approaches to Britain in an attempt to get them to support an effective measure. That, as far as I know, is where the matter rests at the present time.

The CHAIRMAN. There is no uniformity over there at all?

Mr. NIXON. There is no law whatsoever to destroy German cartels.

The CHAIRMAN. A uniform law would have obtained a uniform handling of the situation regardless of zone?

Mr. NIXON. It is a little more than that, Senator. It is not merely uniformity. It is policy. There isn't any policy at all now.

The CHAIRMAN. A uniform law would have established a policy.

Mr. NIXON. Yes, sir; and a uniform policy.

The CHAIRMAN. Which could have been enforced in all four zones?

Mr. NIXON. Yes, sir.

The CHAIRMAN. It is now in the discretion of the zone commander in each zone?

Mr. NIXON. That is right, and it means that virtually nothing is being done. We have no policy to break up Siemens, we have no policy to break up Opel, we have no policy to break up Bausch, we have no policy to break up Daimler-Benz. We have no spelled-out program with regard to excessive concentrations of economic power in the United States zone, and of course there is none in Germany.

That is the story of the decartelization law.

The order of presentation in my paper is denazification and then external assets. If you don't mind, I would like to the external assets story at this point and come to denazification second.

One of the major objectives that dominates our entire operation in Germany is the destruction of the war potential of Germany, the assurance that Germany never again can wage war. We know that this is not merely a question of destroying the instruments of warfare, but is it more than that, a question of destroying the economic bases for warfare in Germany. We know, further, that one of the most important aspects of doing this job is the destruction of the hidden economic bases of Germany outside of her boundaries.

In a carefully studied and developed program, Germany camouflaged and hid a large sum of money and wealth throughout the countries of the world, which she used before the war to build up stock piles, for espionage, and during the war for espionage, for trade, and for the continuation of her aggressive activities.

The program directed toward this volume of Germany's external wealth is essentially a disarmament program, basically directed toward destroying her war potential and providing security for the nations of the world.

The CHAIRMAN. By removing her foreign bases of operating and evading her treaties?

Mr. NIXON. That is right. It is secondarily a problem of reparations. The first objective is the objective of disarmament. It is difficult to tell you how much this volume of wealth amounts to. It has been estimated that the volume, excluding the United States, United Kingdom, Canada, Italy, Central and Eastern Europe, is at least 1½ billion dollars. It is my personal opinion that if we really were to get at all the assets and uncover all the hidden wealth in all the countries, it would amount to as much as \$3,000,000,000.

On this question a considerable controversy has developed, particularly with the State Department, and I think it is necessary that I outline to you the action we have taken with regard to external assets and the differences of opinion that I have with the developments of this program.

As you perhaps know, President Truman took with him to the Potsdam Conference the draft of a law to investigate and marshal

all of Germany's external assets. At the instance of the American representative there, the Potsdam Declaration stated:

Appropriate steps shall be taken by the Control Council to exercise control and the power of disposition over German-owned external assets not already under the control of the United Nations which have taken part in the war against Germany.

Immediately following the Potsdam Conference there was introduced in military government quadripartite channels a draft of the law to carry out this objective, and after a good bit of discussion, on the 30th of October, Law No. 5, Military Government Law No. 5, the vesting and marshalling decree, was passed, signed by General Eisenhower, General Koenig, Marshal Zhukov, and Field Marshal Montgomery.

This Allied Control Council Law No. 2, vesting and marshalling German external assets, states in its preamble that the Control Council is determined to assume control of all German assets abroad and to divest the said assets of their German ownership, with the intention thereby of promoting international peace and collective security by the elimination of the German war potential.

The decree creates a German External Property Commission composed of representatives of the four occupying powers in Germany. The Commission is constituted "as an intergovernmental agency of the Control Council, vested with all the necessary powers and authority."

The law vests in this Commission—

all rights, titles and interests with respect of any property outside Germany which is owned or controlled by any person of German nationality or by any corporation or business organization deemed to be German.

In addition, Law 5 gives the four-powered German External Property Commission complete authority to do all acts necessary to carry out the vesting and marshalling of all German external assets pursuant to the terms of the decree.

This is the basic law.

On the 5th of November 1945, I was designated as acting United States representative of the German External Property Commission. In anticipation of this designation, the division had already created the necessary documents implementing the decree. It involved communicating with the neutral countries particularly, asking their adherence to the decree, notifying them of it, and I also proposed that there should be an immediate indication that it was the intention of the four powers to use all means necessary, including sanctions, if required, in order to root out all of Germany's assets in all neutral countries.

Immediately upon the holding of the first preliminary meeting of the German External Property Commission on the 27th of November, we received a cable from the State Department which directed the United States representative to make the following proposals:

First, the German External Property Commission should be organized into two separate operating units. In one unit, the Soviet Union would be the sole voting member and the other three powers would be observers. They would have to do with Bulgaria, Hungary, Rumania, Finland, and eastern Austria. In the second unit, the other three powers would be the voters, and presumably the Soviet Union would be an observer.

The second request was that the Control Council and the GEPC should agree to exempt all the Latin American Republics from the coverage of the vesting decree "upon representations of the United States member that these countries have satisfactorily carried out their replacement and reparations program." It was suggested that we should temporarily delay the issuance of this decision, but that it should be gotten ready for immediate action.

Upon receipt of this cable, I prepared and sent to General Clay a draft of the documents necessary to carry out the instructions of the cable. At the same time I put a covering memorandum on the documents suggesting that these documents should not be presented for reasons which I submitted in a longer memorandum presented to General Clay, giving my reactions to the instructions. In substance, the memorandum that I sent to General Clay objected to the proposal to divide the German External Property Commission, on the grounds that such action was in direct conflict with the quadripartite nature of Control Council Law 5 and that it would undermine the only effective basis for action, namely, vigorous joint four-power cooperation. I pointed out that it was unfortunate for the United States to take the initiative in breaking the unity of the four powers in this important international operation at a time particularly when unity was so much required. I objected to the proposal to remove the Western Hemisphere republics from the coverage of the decree, particularly Argentina. I stated that it was not my understanding that Argentina could be considered to have been a member of the United Nations actively engaged in the war against Germany, and to propose that she be excluded from four-power action on external assets was a violation of the Potsdam Agreement.

At the same time, a few days later, we received a cable from the State Department telling us, that they were beginning tripartite operations and meetings with regard to Germany's external assets and instructing us "to reach no agreements without prior concurrence by the State Department."

I objected to this proposal, saying that it was not my understanding that the State Department could proceed to implement the vesting decree in the manner indicated without transgressing the jurisdiction and responsibility of the German External Property Commission, that the continuation of this action placed the United States representative on the Commission in an impossible position inasmuch as he was unaware of the status of negotiations being conducted by the State Department which were of most immediate concern to GEPC and because it placed the United States representative in a most embarrassing position vis-a-vis the Soviet representative on the Commission. In addition, I attached a proposed program designed to expedite the effective operation of the German External Property Commission. I requested permission to introduce this paper as a guide to the Commission's activities, but such permission was never granted.

In a meeting of the military government staff on the 1st of December, General Clay made reference to the cable from the State Department and indicated full agreement with the position I had taken. General Clay stated that the proposal to split GEPC into two parts was "gravely against the spirit of quadripartite machinery." More-

over, General Clay indicated his definite opposition to the suggested proposal to eliminate the hemisphere republics from the coverage of the decree. He pointed out that he had fought for the passage of this law. He said that we had to have four-power operation and that it should be applied throughout the world and that for him almost in the next breath to come in and make two proposals to split the thing into two parts and to exclude a hemisphere would be personally embarrassing to him, besides the other serious implications of taking such a step.

At his instructions, I went to the Soviet representative on the Commission and asked him his view with regard to the proposal to split the Commission. The representative is a man named Denisov. He stated to me that the Soviets were interested in the application of Law 5 in all countries, including the neutral countries, and that they did not know of any agreement by the Soviet Union to renounce or compromise the participation of the Soviet Union in implementing the Allied Control Law No. 5.

This matter disturbed us very much, so on the 15th of December General Clay and I arranged a teletype conference with Washington to seek clarification. At this end there were Major General Hildring, Lieutenant Colonel Gross, Mr. Rubin and Mr. Surrey of the State Department. In opening the conference, General Clay expressed our views as I have outlined them about the proposals and informed them that we would proceed to follow the orders of the State Department but that we felt it necessary immediately to tell them of our apprehensions at their instructions. The State Department representatives indicated that they had had preliminary discussions on this matter with Mr. Braden and with Mr. Thorpe, who was acting for Mr. Clayton who was absent at the time. At the conclusion of the conference in which we discussed these discussions here in Washington, which I shall mention later on, we were told by the Washington conferees; "We will prepare detailed cable on the questions you raised, after which you may desire further TWX conference. You need take no action pending further advice."

At the time I left Germany we had heard no further word. The last word that General Clay had said to me was to try to see what could be done to see if we could get the thing cleared up.

At the same time that this delay was going on, we were receiving almost day by day cables from agents in the neutral countries describing to us the operation of Nazi agents in camouflaging and dissipating German assets. We felt the urgency of time very much and felt the necessity of quick action. We were put completely in limbo by the instruction to take no action without concurrence in Washington, by the fact that we didn't know whether the Commission was to be in one part or two parts, and by the fact that there were tripartite operations going on on the very same problem, about which we were very imperfectly and only incidentally being kept informed.

The month of December was a month in which the United States representative on all quadripartite parties was the chairman, and we had counted on that month to give us an opportunity to push the interests of Law 5 very vigorously. Of course, we lost that opportunity.

Since I have been back here, I have learned that the State Department has sent cables to the United States embassies in Moscow, Paris,

and London, requesting that they make appropriate arrangements to approach the Soviet Foreign Office and to inform them of the developments of a tripartite nature regarding Germany's external assets. As far as I know, no such approach to the Soviet Government has yet been made. Meanwhile, arrangements have been completed for a meeting of the Swiss officials with the French, British, and American officials here in Washington on March 11, and it is my further understanding that the Soviet Union has not been invited to send representatives or even to have observers at this meeting.

On the basis of these facts, I am led to the following conclusions:

1. The United States State Department and the British Foreign Office have been, and are now, preventing the Allied Control Authority through the German External Property Commission from proceeding to implement Law 5, the vesting and marshalling of external assets decree, and thus are bypassing and nullifying the four-power action taken at Berlin with regard to external assets.

2. The United States State Department, together with the British and French Foreign Offices have maneuvered to split the quadripartite German External Property Commission into "eastern and western units" and are proceeding to crystallize this split among the four powers in regard to the external-assets problem. This unwarranted action, in my judgment, stems from the concern on the part of certain influential and apparently dominating influences in these Offices to avoid having the Soviet Union, through genuine quadripartite action, involved in the external assets question in countries such as Spain, Portugal, Switzerland, Sweden, and Argentina.

3. By failing to implement vigorously the quadripartite Allied Control Authority action against Germany's external assets, the United States and Great Britain are losing the opportunity to develop an effective, forceful drive to root out all of Germany's assets. We are applying ineffectually a "would you be so kind" approach in the drive for the camouflaged assets of the Germans in such Fascist countries as Spain, Portugal, and Argentina. As a result of this, our drive to divest Germany of its external wealth has bogged down and is profoundly jeopardized in the future.

I would like to discuss each of these charges one by one.

The CHAIRMAN. Let's recess until 2 o'clock and finish then. This is a good point to break off.

Let's sum up a little bit here. As it now stands, we still don't have Law 5 implemented?

Mr. NIXON. That is right, sir.

The CHAIRMAN. We still have a split unit that is not able to work on a unified world-wide basis?

Mr. NIXON. That is right.

The CHAIRMAN. We still are holding one member of the quadripartite agreement at arm's length in certain sections and putting him in control in others?

Mr. NIXON. That is right.

The CHAIRMAN. So, the criticism leveled at Russia's action in certain sections is caused by this action here in which she is put in charge of sections with merely observers from the other three nations; is that right?

Mr. NIXON. I would say that contributes to it.

The CHAIRMAN. She can feel also that she is merely an observer and hasn't much to do elsewhere, so she might as well go ahead and do what she can where she can.

(Whereupon, at 12:15 p. m., a recess was taken until 2 p. m. of the same day.)

AFTER RECESS

(The meeting reconvened at 2:17 p. m., Senator Elbert D. Thomas, Utah, presiding.)

Senator THOMAS. You had better give us the page if you are going to follow your prepared statement, Mr. Nixon.

Mr. NIXON. Senator Thomas, I haven't been reading the statement. I have been summarizing it. I had just recounted some of the background of the action with regard to Germany's external assets, and I had pointed out that on the basis of this background I drew three conclusions, and I proposed to discuss these conclusions a little bit more in detail. That is what I would like to proceed with at this point.

The conclusion that I had just come to, the first one, was the fact that:

The United States State Department and the British Foreign Office have been, and are now, preventing the Allied Control Authority through the German External Property Commission from proceeding to implement Law 5, the vesting and marshalling of external assets decree, and thus are bypassing and nullifying the four-power action taken at Berlin with regard to external assets.

I should like to enlarge upon this point. The action of the Allied Control Authority, represented by General Eisenhower, General Koenig, Marshal Montgomery, and General Zhukov, in passing a special law for the vesting and marshalling of Germany's external assets, was based upon the realistic judgment that it is imperative to have full joint four-power operation in order to effectively take over the hidden assets of Germany. Reference to the language of Law 5 indicates beyond doubt the unqualified joint four power nature of the operation contemplated and emphasizes the urgency of this action for world security and for the elimination of Germany's war potential. The entire basis of Allied Control Authority action with regard to Germany is four power combined operation, which is the objective of all ACA legislation.

In the face of this fact, the United States State Department, the British Foreign Office, and representatives of the French Government have proceeded virtually to ignore Law 5 and have proceeded without significant reference to this law or to the agency which it created to establish their own procedures with regard to Germany's external assets. Taking advantage of the admitted necessity of utilizing diplomatic channels when approaching foreign governments, these foreign offices have moved to take over the entire operation with regard to Germany's external assets in the vital neutral countries. This they have done on a tripartite basis. The extent to which this action has gone is reflected in the proposal of the British to set up in London a special tripartite agency to deal with Germany's external assets in the neutral countries. This clearly duplicates the already specifically designated field of operation of the Control Authority's GEPC, the only difference being that the Soviet Union is not included.

During the period in which the four-power operation in Germany was immobilized by the instructions of the State Department to take no action with regard to this question and the uncertainty as to whether it was to be on a united basis or on a two-unit basis, there were meetings being held on a tripartite basis in Paris, London, and Washington, to proceed to the implementation of Law 5. Thus, as of today the four-power machinery in Germany has been completely

bypassed so far as the administration, operation, and policy with regard to Germany's external assets are concerned.

The State Department bases its case for division of GEPC into two parts on the interpretation of one section of the Potsdam Declaration and on the aide memoire which they exchanged with the Soviet Union in September. The Potsdam Agreement in its section on reparations provides that the Soviet Union "renounces all claim in respect of reparations to German foreign assets" in all countries other than Bulgaria, Finland, Hungary, Rumania, and eastern Austria. According to the State Department interpretation, this language includes all the activities with regard to vesting and marshalling external assets in the countries enumerated. It applies not only to the operation as far as reparations is concerned, but to the aspects of disarmament of Germany's external foreign basis of wealth. In other words, unilaterally the State Department is applying the Potsdam Declaration assignment of "spheres of influence" with regard to "claims for reparations" to the operation and the policy aspects of vesting and marshalling Germany's external assets.

It is also claimed by the State Department that the separation was further crystallized and established in an aide memoire sent to the Soviet Union on the 7th of September, to which the Soviet Union replied on September 16 that it had no objection. It has not been possible to get a copy of this aide memoire, but Mr. Seymour Rubin, of the State Department who is involved in this matter, has acknowledged that the aide memoire merely reiterates the separation indicated in the Potsdam Agreement so far as disposition of Germany's external assets is concerned. Mr. Rubin has acknowledged that under the memorandum, the proposed division only applies to the disposition of assets.

(Senator Kilgore took the chair.)

Mr. NIXON (continuing). Curiously enough, in spite of the obviously ample means of communication, the State Department has never really specifically sought clarification of this issue. They have never contacted the Soviet Union to ask if they agree with this interpretation of Potsdam. In the State Department cable in late January to the United States embassies in Paris, London, and Moscow, asking them that they inform the Soviets or that they consider informing the Soviets about the tripartite operations, no attempt was made to secure specific clarification of the interpretation being made by the three powers regarding the split in the operation of vesting Germany's external assets. The entire development of tripartite operation in the field of vesting and marshalling of Germany's assets outside her boundaries has been without the assent of the Soviet Union and without significant reference to the Allied Control Authority or to the German External Property Commission.

I should like to indicate to you why I believe that the assumption of the State Department in this case is unwarranted. In the first place, it is perfectly clear that the Potsdam language does not call for separate operation of the Allied Powers in connection with Germany's external assets. Quite the contrary is true, for in the basic statement with regard to external assets it provides that steps shall be taken "by the Control Council to exercise control and the power of disposition over German-owned external assets." The division into spheres of influence with respect to reparations is in an entirely dif-

ferent category. If a different interpretation were to be made of the provisions of Potsdam, a very specific and forthright clarification would have to be required from the parties concerned. To my knowledge, no effort has been made to obtain this.

It is interesting to notice that the Foreign Economic Administration, a representative of which I think presented a report to you not so long ago, corroborates the interpretation I have made of the external assets problem and specifically rejects the State Department application of the Potsdam Agreement provision regarding reparations from Germany's external assets. They state in the report that they filed with you:

The division of German foreign assets among the greater powers into spheres of interest for reparations purposes set forth in the Berlin protocol * * *, does not remove the necessity for reaching an international agreement—if anything, it increases it.

Also, as recently as the end of last month, Ambassador Murphy, after a lengthy official silence on this entire matter, has finally communicated his view or his acknowledgment of the fact that the Potsdam Declaration does not establish a basis for separating the operation of vesting and marshalling German's external assets. That makes it perfectly clear that that is not in any of the agreements reached at Potsdam and is not in the language of any of the International documents about which he has knowledge. This statement is in the hands of the State Department at the present time.

THE CHAIRMAN. Mr. Nixon, you mentioned Mr. Rubin. What is his official connection with the State Department?

MR. NIXON. I couldn't give you his official title. He is the man who has been in charge of their "safe haven" operation.

THE CHAIRMAN. The reason I ask that question is the fact that after reaching an agreement with Mr. Acheson and also with Mr. Clayton and Mr. Braden about certain evidence of which we wanted to get into the record, Mr. Rubin and two others came from the State Department and talked to me, and the next thing I knew every block was thrown in the way of getting any evidence released. I am wondering what Mr. Rubin's position might be in that connection, because he is apparently the man who threw the block in the way of the release of information.

MR. NIXON. He may attempt to throw the blocks to me in a way, too.

I couldn't give you the title.

THE CHAIRMAN. He doesn't appear to be old enough and diplomatic enough to rule the State Department, but I just wonder how he throws his blocks in.

MR. NIXON. I am sorry, I couldn't answer that question for you. I presume you will be able to solve that problem in your own way.

THE CHAIRMAN. I think I will, eventually. We may give him a fiddle and call him Rubinoff.

MR. NIXON. In the second place, when I went to the Soviets again, by instruction of General Clay, I asked them again what their view was in regard to their participation in the vesting and marshalling of Germany's external assets. They said that they had made inquiry of their political advisers, and they knew nothing of an agreement which would have separated the activity of GEPC into two parts.

They further stated that it was the opinion of their political advisers that the passage of Law 5 superseded any previous agreement providing any arrangement other than that contained in law 5. They seemed to have a pretty high regard for the signatures of Eisenhower, Zhukov, Montgomery, and Koenig, and they are inclined to go by the document that they signed.

Again as recently as at the end of January the British came in to the German External Property Commission and made the proposal to split the Commission which the State Department had originally urged that we make. Curiously enough, the first proposal to this effect was made by the British that they were going to do it, and they asked that they have United States support. Instead of that, the State Department evidently decided to carry the ball itself and gave us instructions to make the split. When we held that thing up, the British decided to come in to the Commission and try to make the split themselves and brought the proposal in to the German External Property Commission. General Clay has reported this again in language which I think makes it clear that he is not very sympathetic with it, and he has reported that this action has threatened a break-up of the German External Property Commission in Germany.

The CHAIRMAN. How much has it delayed the operation of the Commission?

Mr. NIXON. Sir, the law was promulgated on the first of November. Today is near the end of February. In those three months the operation and the implementation in Germany of a four-power operation on this problem has been almost completely stalemated, purely because we don't know whether we are one part or two parts.

The CHAIRMAN. About all we have so far is the so-called Blue Book issued by Mr. Braden on Argentina which has not been implemented but which simply defines a very dangerous situation.

Mr. NIXON. We have had a little more than that, of course. That is an admirable document. In addition to that, there are tripartite developments with regard to Germany's external assets, and there is a continuation of the "safe haven" program which we have always had in operation. But this has not resulted in an effective drive for Germany's external assets.

The CHAIRMAN. The only effect of the "safe haven" program is to preclude American investors from going in and buying companies like I. G. Farben and others and operating them themselves. Isn't that about all there is to it? It has precluded them from paying American exchange for them, from giving them dollar exchange in lieu of stocks in their companies.

Mr. NIXON. Essentially that is correct, but the important thing is that today the Nazis and Nazi agents are dissipating and camouflaging German assets throughout the world and they haven't heard anything in actual effect about the Germany External Property Commission or the drive of the Allies to get those assets. It is now three months since the passage of the law.

The CHAIRMAN. All we have done is preclude American investors from getting control of this, from seeking control of it, whereas we have allowed them to go ahead in their own sweet way and do what they want to with the assets. Isn't that right?

Mr. NIXON. That is right.

Interestingly enough, the British did not share the United States confidence in the rationalization of the United States State Department as to the basis for splitting up the four-power operation on external assets—this is very clear—although they sought the same objective, because they decided to do it in a different fashion. On the 5th of December the Ministry of Economic Warfare sent a cable which discussed the proposed draft of the three powers which would govern the tripartite meetings to be held with the neutral countries on external assets. They were drawing a draft to sort of govern their operations. In this draft, one of the preliminary drafts, it said the three powers would be acting on behalf of the Allied Control Authority. To this the British made an objection. They objected and proposed that the words "on behalf of the Allied Control Authority" be deleted because in their view the inclusion created the possibility that the Soviet Union could claim the right to participation, and such deletion was therefore necessary in order to forestall any possibility of such a claim. The British stated that both the United States and French Governments would "presumably agree" that it was desirable that nothing should be included in these exchanges that "might conceivably lead to a Russian claim to have a say in this particular matter." On the 14th of December Ambassador Coffey advised Secretary Byrnes by cable that the French had agreed with the British proposal to delete these words, and it is my understanding that the State Department also agreed.

At the end of this cable they had as an afterthought a further reason for not having these words. It is stated that these words should be deleted because there is no assurance that the Soviet Union would approve this tripartite group acting on its behalf in connection with the external assets in the neutral countries. Clearly, it was not the opinion of the British that on the basis of the Potsdam Agreement the Soviet Union would agree to being excluded from the operations in regard to external assets in the neutral countries.

While all of this exchange was going on, we were being told very blithely by the State Department, "It is all fixed up. It is clear in Potsdam, and we have an aide memoire." After we read Potsdam carefully, we found that Potsdam said nothing of that sort, and the State Department has now been forced really to retreat from this interpretation. We found also that the aide memoire did not address itself to the precise question at hand, but merely reiterated the language of Potsdam, to which of course the Soviet Union had no objection. I call this conniving of a reprehensible sort.

Just one other example of it. At the meeting of the German External Property Commission on the 14th of December I was approached by the French member of the Commission, M. Renouf, who explained to me that he had been in Paris at the tripartite meetings of the Reparations Commission and that the representatives of the Finance Ministry of France had come to him disturbed about the possibility of four power operation on external assets. They were disturbed particularly at the Soviet Union's having "an eye into" certain countries, such as Spain and Switzerland, and he thought we should do something to manage to avoid this.

As we were standing there talking, we were joined by the British member of the commission, Brigadier Greenshields, who had not heard our previous conversation, but who himself immediately entered a

proposal that, "We have to do something to divide the operation. Let the Soviets take their countries, and we will handle the rest of it." He proposed that we should meet outside the four-power quadripartite commission, meet informally, to draft a proposal which one of us would then introduce to split up the German External Property Commission. In other words, he was proposing a tripartite caucus. It was perfectly clear that they didn't share the confidence of the State Department that the Soviet Union didn't want to be in on this, nor did they share the State Department's interpretation of the language of Potsdam. They realized that something had to be done.

The CHAIRMAN. In effect, the whole theory of UNO is starting to split into two grand subdivisions, Russia and Middle Europe; and the United States, England, France, and the rest of the world. In other words, if we exclude Russia as an observer, they have a right to exclude the United States, England, and France as observers, under this theory that has been approved, and then what we have is a question again of balance of power, which might lead to another war.

Mr. NIXON. The point is this: We fought the war on a united basis. In one sense, a very important sense, this is still an aspect of fighting the war. We are trying to disarm Germany's hidden assets outside of the country. Our top representatives, General Eisenhower and General Clay, for example, felt that we had to do this on a four-power basis, that we had more power if the four of us were united and going in together for these assets. They proceeded to adopt legislation which was very clear. The language was unmistakable. This operation now is being undermined on a three-power basis by secret cables, by an exchange of plans and schemes to put it on a three-power basis and to exclude the genuine four-power operation.

The CHAIRMAN. No; I disagree with you on that. Isn't it the furtherance of that policy which was quite prevalent in Europe immediately after VE-day that England and France and the United States would line up against Russia, which was common gossip on the Continent and the British Isles?

Mr. NIXON. Of course it was.

The CHAIRMAN. That is all you heard, that they must get together. Isn't that the dividing line immediately set up in that division of external assets? That is the first division that you get into. The other steps will come naturally.

Mr. NIXON. It is certainly in that direction, but I don't like to accept that.

The CHAIRMAN. I know, but I mean it is a step in that direction.

Mr. NIXON. Absolutely. There is no question about it.

The CHAIRMAN. And it is following the same theory.

Mr. NIXON. That is right. I was just going to say something on the political motivations of this. It is difficult to assess motives, I suppose, in a thing of this sort. There is one other reason for this that I want to mention. In the teletype conference which we had with the State Department and with General Hildring on the 15th of December, they said that their proposal to separate the operation of GEPC was due "to the strong feeling in the State Department that complete quadripartite operation of Law 5 in such countries as Spain might breed conflicts with respect to foreign policy which it is strongly desired to avoid." I have told you that the French wanted to have

them keep an eye out for certain situations. The British emphasis on keeping them out was just unqualified.

This unwarranted and diligent effort to disunify the four powers leads to a profound suspicion that it is being sought by at least some forces in the United States State Department and in the British and French foreign offices who are sympathetic to the creation of a western bloc versus the East. It is certainly clear that the actions taken are consistent with the creation of blocs in Europe and inconsistent with the thorough preservation of joint four-power coordinated activity in Europe.

Furthermore, I charge that elements in both the United States, British, and French foreign offices have consciously maneuvered to prevent all four powers from being involved in the search for external assets in the neutral countries, because that would lay bare the fascist or reactionary regimes in countries such as Spain, Portugal, Switzerland, Sweden, and Argentina, and would reveal all the elements of collaboration of certain interests in the Allied countries with these regimes. Such genuine quadripartite action would completely upset the applecart for plans of compromise regarding Germany's external assets in the interest of trade and commercial advantages, and in the interest of avoiding the creation of too radical regimes in the future.

The net result of the failure to develop a coordinated drive for these assets is to prevent an adequately effective drive to get Germany's external assets. It is my judgment that this is still a war task and it should be pursued without compromising qualification, that we should go toward these assets in the same way that we would go after a camouflaged machine-gun nest, with the same unity and the same uncompromising purpose, instead of taking the attitude of bargaining, the attitude of "would you be so kind" in the approach to countries like Spain, Argentina, Portugal, and the other neutrals.

Perhaps the most important aspect of this is the question of what to do with regard to sanctions. Will we use sanctions? The original proposal in Germany that this be indicated as a policy in dealing with external assets was deleted from the communication to the neutral countries. It is my understanding that there has then ensued a controversy particularly between the United States and Britain and and within the United States forces as to whether or not we will use sanctions, with the general inclination to be that we will use them if Britain will use them, but we are disinclined to use unilateral sanctions. Britain doesn't want to use sanctions. Therefore, we give to Britain a veto over the use of sanctions, having excluded the Soviet Union, who we know would support us on that kind of policy; we put ourselves in a position where we cannot develop the effective economic weapons to complete this drive for Germany's external assets, and this is a situation where only loaded economic guns will work. You can't fool the neutral countries unless you are willing to use force in the sense of economic sanctions.

Analysis of our accomplishments regarding external assets in the neutral countries I think will adequately bear me out in my contention that we have not yet, 9 months after the war has ended, developed an effective drive for these assets. I don't intend to go over these countries in any detail with you. I have indicated briefly what the situation is there. If you will go through the neutral countries, country by country, you will find that they have not accepted the

sovereignty of the four powers in getting the assets. They are not turning the assets over. Such progress as we have made has been very partial and generally ineffective. Generally speaking, in spite of the efforts that have been made, at the present time there is a continuation of the dissipation and further concealment of these assets throughout all of the neutral countries.

I submit that this is a very sad record. I don't know whether the United States State Department is permitting itself to be a pawn of the British, whether the situation is the reverse, or whether this is just a "happy coincidence" of fears and prejudices in the international field. It is clear that behind the backs of the Allied Control Authority there has been secret conniving to avoid full four-power activity with respect to Germany's external assets. This activity coincides with an utter failure to formulate an effective drive to disarm the Nazis of their foreign economic bases and thus sacrifices on the altar of international power politics one of the purposes for which such vast human and material contributions were made from September 1939 to May 1945. This action has already limited and has seriously jeopardized the future unity of all the Allied Powers, which is as vital in peace as it was in war.

I understand that General Clay has just recently indicated further discussions with the Soviet on this question, and they have restated their interest in full four-power operation on this problem. I saw this morning a story from Berlin relating to this question, indicating that there has been some change in the State Department's position. I am in no position to evaluate this since it is a very recent development. It is my understanding, however, that the Swiss are scheduled to come to Washington on March 11, that there has been no invitation to the Soviet Union to be involved in the drive for these assets in these conferences, and that they are proceeding on a tripartite basis to the implementation and the application of Law 5.

It is my feeling that immediate steps should be taken to restore our operations to a genuine four-power basis, to bring about the active and equal involvement of the Soviet Union in the drive against German assets in neutral countries and to formulate a hard-hitting, uncompromising program to make sure that no obstacles are placed in the path of the drive to disarm Nazi Germany and to create security for the people of the world.

That is what I wanted to say on external assets.

The CHAIRMAN. The thing that worries me about this is that you started in this on a four-power basis, and it looks to me as if this is the first step to divide it into two opposing camps.

Mr. NIXON. I don't know whether it is the first step. It certainly is a step.

Mr. CHAIRMAN. It is a step in that direction.

Mr. NIXON. Yes, sir.

The CHAIRMAN. Which disunites the United Nations.

Mr. NIXON. That is my judgment.

The CHAIRMAN. It would make the United Nations an impotent organization.

Mr. NIXON. It is in that direction; yes, sir.

The CHAIRMAN. Senator Thomas, do you have any questions you want to ask?

Senator THOMAS. No; not without the background which I missed this morning.

The CHAIRMAN. This morning's hearing didn't go into that. This morning's hearing went into the question of cartels in Germany.

Mr. NIXON. I covered a little bit of the background on external assets, which Senator Thomas missed.

Senator THOMAS. May I ask one question that may come up? Where was Bedell-Smith all the time that Eisenhower was signing this four-power agreement? Was he with him?

Mr. NIXON. Yes, sir. He was the chief of staff in Frankfurt.

Senator THOMAS. He was a party, then, to the four-power agreement?

Mr. NIXON. In the sense that he was Eisenhower's chief of staff, yes, of course. I am sure he was thoroughly acquainted with all the developments in this connection. It is a very important legislative operation, one of the main legislative accomplishments of the Allied Control Authority.

Senator THOMAS. Where has he been? Has he been active in any of these things since that time?

Mr. NIXON. No. Of course, both he and General Eisenhower left Germany very shortly after the law was passed.

Senator THOMAS. He came out with Eisenhower?

Mr. NIXON. Yes, sir.

I wanted to discuss denazification a little bit. I should like to divide my comments in this respect into two parts. I would like to address myself first to the action we are taking with regard to the industrial and financial leaders, and then I would like to give you some impressions about the progress and the deficiencies with regard to our removal program of Nazis.

In the statement there is a restatement of the documents and the policy upon which our denazification program is based. It is necessary only for me to indicate that from Crimea on we stated in unequivocal terms that the first objective was thorough destruction of nazism in all its aspects and to purge it from German life—a very clear statement in that respect. It was also clear that we thought of this not merely in terms of getting the Nazi Brown Shirt who was on the street, but in terms of wiping out the collaborators and partners of the Nazis and the Nazi Reich, of including in that the industrial group that you mentioned this morning as being partners in the scheme and plan of the German Third Reich. This is recognized in the documents.

It also was specifically set forth in a very interesting document, War Department pamphlet No. 31-110A, entitled "Military Government Guide, Dissolution of the Nazi Party and Its Affiliated Organizations, Denazification of Important Business Concerns in Germany."

Senator THOMAS. What is the date?

Mr. NIXON. This pamphlet was issued in March 1945 by General Marshall for the information and guidance of all concerned.

This document had a list of 1,800 business leaders and officials who exercised a preponderant influence in Germany. To quote the guide, it said these leaders have—

in an outstanding way, thrived under National Socialism, who welcomed it in the beginning, aided the Nazis to obtain power, supported them in office, shared

the spoils of expropriation and conquest, or otherwise benefited in their careers or fortunes under the Nazis.

The pamphlet listed them in detail, described their connections, and said that, as security measures, they should be immediately put under arrest and should be held for subsequent trial.

When JCS 1067 was issued on the 10th of May, it had a provision in it on denazification and on the arrest of certain categories of persons. I don't know that this section of JCS 1067 has ever been made public. I don't believe it has. It is going to be all right, I think, to point out that one of the categories that it had included as people who should be arrested and held for trial was a group of Nazis and Nazi sympathizers holding important positions in industry, commerce, finance, and agriculture; and it stated in JCS 1067 that it may generally be assumed, in the absence of evidence to the contrary, that any persons holding such positions are Nazis or Nazi sympathizers, and it provided that these people should be arrested and held for trial. If there was any reason that you weren't going to arrest them, you should send your reasons and recommendations to the Government through the Joint Chiefs of Staff.

It is my contention that this directive to arrest the key industrial and financial figures has not been applied in the United States zone. The reasons for this are several. Primarily, the responsibility for carrying out this vital provision of JCS 1067 has never been specifically assigned. In the second place, the Arrest Categories Handbook, which governs the operation of the Counter-Intelligence Corps, does not conform to the orders of JCS 1067, and despite persistent efforts by the Public Safety Division in the German military government requesting such revision, this change has never been made. What does this mean? It means that our counterintelligence agents have never had orders to go out and get a certain category of industrial and financial leaders. We have never spelled out who they were and given instructions and developed a staff to put these people under arrest and to hold them until we are able and ready to judge them for their guilt.

I am not saying, you understand, that there are not some industrial and financial leaders arrested. There are some. There are many of them who were arrested because they, by chance, held certain high Nazi positions or because they were in one way or another in a mandatory-arrest category, but it is on a purely hit-or-miss basis. There has never been a clear assignment of responsibility to do this job, a sitting down and saying, "Here are the categories of people that we are going to hold. We are going to take this list that General Marshall issued in March 1945, and we are going to apply it in our zone." That has never been done.

We ran into this confusion and this situation in several respects; particularly we ran up against problems arising from the fact that in our investigations we had arrested for interrogation certain financial and industrial leaders. When we first went in there, it was very simple. All you needed to arrest a man was a carbine, and we didn't have much trouble. As order began to be restored, procedures were developed, of course, which was perfectly proper and desirable, but with the development of these procedures there was no policy with regard to industrial and financial leaders. We finished interrogating a man, and then we were faced with the problem: What authority do

we have to hold him? By what test do we decide whether he is in or out? We began to face some criticism because we were holding Germans in prison without "specific charges," and there was general confusion about the entire matter.

This was brought out, for example, at the conclusion of our I. G. Farben investigation. We had a large number of I. G. Farben directors who had been extensively interrogated and profoundly implicated in the I. G. Farben operation. We had these men in prison. We finished our investigation, and we ran into a controversy about whether they should be retained in prison: There was a general confusion both on my staff and in military government generally in Frankfurt about the status of these people. Particularly we got into a controversy with the I. G. Farben control officer, Colonel Pillsbury. When the position of my division was made clear to him, that these people would be kept in prison and tried for their guilt as officials of I. G. Farben, it was his insistence that they should work for him, out of custody, until such time as specific charges were drafted and brought against them.

What kind of men were involved? Men like Paul Denker, the director of Farben's accounting division and an important official in various Farben subsidiaries, including those manufacturing poison gas for the Wehrmacht; Carl von Heider, general director of sales of inorganic chemicals; Hans Kugler, general director of sales of dyestuffs, the man who held the position of commissar of the Czech dyestuff industry when the I. G. Farben moved into Czechoslovakia to take it over; Helmuth Borgwardt, general director of sales of organic chemicals; Geunther Frank-Fahle, chief of the central finance office and director of Max Ilgner's notorious espionage group in N. W. 7; and Kurt Kruger, another Ilgner lieutenant; Herbert Stein, chief legal adviser of the chemical and dyestuffs division and an old Nazi; and Gustave Kupper, head of the legal division of the dyestuffs department, who was known as the camouflage expert of I. G. Farben.

The CHAIRMAN. Is he the man who acted as Schmidt's attorney when Schmidt was being interrogated?

Mr. NIXON. Yes. He was in the company of Schmidt a great deal when he was being interrogated. He was the top camouflage expert. Kupper had quite a career. He was arrested for awhile. Then he was let out. Then he was hired by the I. G. Farben control officer at his full I. G. Farben salary, and then when law 8 came out he had his salary cut to that of a common laborer but still was hired. He was one of those that we protested being let go with Colonel Pillsbury and Colonel Pillsbury insisted he needed him. When I next checked up, I found he was in jail for some insurance fraud which was not directly connected with his I. G. Farben activities. So, they had to take him out of the I. G. Farben control office.

There were I. G. Farben people in jail.

The CHAIRMAN. He was not acting purely in a legal capacity for I. G. Farben, or Colonel Pillsbury's statement would not hold water. If he was needed for the operation of the plant, he was not a legal staff man. He was an operational man.

Mr. NIXON. He wasn't operating plants. He was drafting reports for Colonel Pillsbury, and Colonel Pillsbury didn't think he should be in jail while that was being done.

We conducted our investigation of I. G. Farben with all these people in custody and managed to get the information. I don't want to leave you with the impression that there were not I. G. Farben people in jail.

General Clay asked me to give him a report to the best of the information that was available of the status of I. G. Farben top officials, which I did the first of January or thereabouts. At that time I think there were eight of the board of managers of I. G. Farben who were in prison in the United States zone, and there were four of them who were not in prison. There was one member of the board of directors who happened to be an obertruppenfuhrer in the SS and was in prison for being an SS official. None of the rest of them were in prison, to the best of our knowledge. The sort of second-string directors of Farben, the department heads, the men I have just described, generally speaking, were not in prison. Again it was purely on a hit-and-miss operation, with no programmatic plan as to who was in and who was out. One of the men who was in dispute was a man named Gierlichs who, as I left Germany, was being tried for perjury, having lied to our investigators. This man was found guilty, sentenced to 2 years in prison, and his sentence was suspended.

The CHAIRMAN. Whom was he writing reports for?

Mr. NIXON. He wasn't really writing any reports. We were trying to get some information from him, interrogating him about the operation of I. G. chemicals in camouflaging Swiss assets, and he lied to us, and we caught him, in a manner of speaking.

The same situation arose in connection with an investigation we have undertaken with regard to the major German banks. Our preliminary investigation showed us that there was a complete integration of the German financial system, the German industrial system, and the German military system, and the German political system—complete and utter. On the basis of that, we took the position that we had to investigate these big banks. Consequently, we arranged to pick up the members of the boards of directors and the boards of managers of the Big Six German banks, those that we could get in our zone, and held them for interrogation. We didn't meet with much sympathy in this program from some quarters. We had support from General Clay and from Mr. Dodge, the head of the Finance Division. They said go ahead.

The CHAIRMAN. General Draper was a bank director himself, wasn't he, and would sympathize with his fellow sufferers abroad?

Mr. NIXON. He was an official of Dillon Reed. I am very careful about the things I say about General Draper.

We had some difficulties in arranging to pick these people up. We couldn't get the Counterintelligence Corps to give us the men to do it, so we had to deputize our own staff people to go out and pick them up. Then we had trouble. I mention this because it reflects the general orientation in which we had to operate. We had trouble getting jail space for these people. The attitude on the part of General Adcock and his officials was that this was a sort of screwball idea, anyway, another one of these Bernstein schemes to tear up Germany. They were very doubtful about whether it should be done and were not very much inclined to give us any jail space. So, for several days we had to keep these people under house arrest while we were having great difficulty arranging jail space for the people. Finally, we got them in.

Another example to give you an idea of the thing is what we call the Freudenberg case. Richard Freudenberg was an extremely important German industrial leader, a member of the Nazi Party. His local military government detachment had petitioned for his exemption from our denazification order and for permission authorizing him to continue in his business. He was one of the largest leather and shoe manufacturers in Germany and one of the richest Nazis, with an income amounting to over 1,000,000 marks in 1944, the biggest income I ever saw of any individual in our investigations. He made very great contributions financially to the Nazis, and he received the high position of Wehrwirtschaftsführer, which is war economy leader, and was a member of the Gauwirtschaftskammer, the regional economic council. These positions alone put him in a mandatory arrest category, but of course he wasn't arrested. What they were talking about was whether they were to maintain his position in his business. That detachment of the military government had appealed for him to be maintained in that position. In spite of the record that I have just cited to you, the USFET (that is the United States Forces in the European Theater) denazification appeal board voted four to one to exempt this man from application of the denazification directive and to allow him to continue his position as an industrial leader.

At this time we had him in custody as a director of the Deutsche Bank, which we were investigating. Colonel Babcock, of the Public Safety Division, who argued against the retention of Freudenberg in this business, who cast the one vote against him, said: "I voted against this man because if he is reinstated, he will supervise the removal of lesser officials under Law No. 8, and it will be ridiculous for us to remove smaller Nazis and leave the big one in." However, Mr. Reinhardt, representing Ambassador Robert Murphy on the appeals board, insisted, "What we are doing here through denazification is nothing less than a social revolution. If the Russians want to Bolshevize their side of the Elbe that is their business, but it is not in conformity with American standards to cut away the basis of private property." This viewpoint was concurred in by the Industry Division, whose representative added, "This man is an extremely capable industrialist, a kind of Henry Ford." At the very time that this extraordinary decision was taken, Freudenberg was under arrest, as I said, for interrogation by us, and it was only after very extensive and vigorous representations that we were able to have the decision of the denazification board temporarily tabled.

There has been a general tendency to announce that we have completed the arrest of all the people we need to arrest in Germany. The numbers could be multiplied. General Adcock, in a meeting of the branch chiefs on the 30th of November, announced that 98 percent of the arrests under the SHAEF Arrest Categories Handbook had been completed.

The CHAIRMAN. I wonder what would happen if those gentlemen who talk about the sanctity of property could be called into a large amphitheater to face the mothers of boys who were killed in Germany. I wonder how much they would think of the sanctity of property. Recently one Harvard professor talked about the sanctity of property, and he went back to Blackstone. In Blackstone's day the theft of five pence was a capital offense. We have gotten away from

that. The sanctity of property is not as great now, theoretically, as the sanctity of human life.

Mr. NIXON. I am afraid some of them don't have that in mind, sir. There has been a great deal of talk about the sad state of affairs where we have 100,000 Germans in jail and the problem of what to do with them and how we have to let them go. In the first place, there are significant proportions of them who should be arrested in the existing mandatory categories who have not been arrested; despite the claim that 98 percent of it is done, the fact is that there are only about 85,000 in the mandatory-arrest categories in prison, and there are probably 200,000 in this category in existence in the United States zone.

We had a report from the AP on the 3d of January from Third Army Headquarters which stated that so far only about 16 percent of the SS officers had been rounded up. In the November 20 military government report there is some corroborating evidence. It says that of the NSKK (that is the Nazi Socialist Motor Corps, which was one of their Nazi formations) there are 320 top officials who should be found, but only 123 have been accounted for. In the central headquarters of the NSKK, not included above, there are 200 estimated in the mandatory arrest categories, and only 45 have been accounted for, and even this was not verified. In the same report it is said that of the 478 top officers in the headquarters of the Waffen SS, only 119 are known to be arrested. We have a long way to go to pick these people up.

A representation of the attitude of these people is contained in this little publication put out by the Information Control Division of USFET, called News of Germany, dated December 15. The headline of it is "Morale Good in Internment Camps." The people in these jails are the top Nazi officials of ortesgruppenleiter and above, members of the Gestapo, the top members of the German police organization, the top officials of the SS, the top officials of the SA. These are the people that are in prison. This is a story about the good morale. It says:

Although camp conditions vary in some respects, all internees are allotted an equal number of calories daily, according to specific classification: Nonworkers, 2,200; workers, 2,900; hospital patients, minors, and those suffering from mal-nutrition, 3,300. Camp buildings are for the most part centrally heated with average room temperatures running from 64 to 68 degrees. Hot or warm showers and laundry facilities are available to internees at least once weekly. Warm clothing, either captured German uniforms or reworked United States Army items, are issued to prisoners in addition to a minimum of three blankets per person. Internees receive regular PW Post Exchange rations, including an average of two packs of cigarette tobacco a week, candy, and soap. They are allowed one package from home per month. They have an infirmary, dispensary, hospital, recreation facilities. Some camps have instituted large-scale programs of arts and handicraft and classes in skilled labor designed to equip prisoners for their return to normal life.

These are Gestapo agents, SS men, top officials of the Nazi Party.

The CHAIRMAN. You have seen the equipment with which the American combat soldier went into action. The blanket made me think of it. He had one.

Mr. NIXON. If he was lucky. Also, Senator, I have seen the conditions in some of the displaced persons and refugee camps in Berlin and elsewhere in Bavaria, and I know that most of them would be willing to trade places with the Nazis that we have in jail. They are

not eating as well, they are not as warm. There can be no question of that.

At the present time we have no program to take care and to judge these people. There is no plan as to how they are going to be handled, when they are going to be tried. There is uncertainty about the future of their trial. The whole question of actually dealing with—

The CHAIRMAN. In other words, there has been no subdivision over there with a sufficient number of courts to expedite the trials. You are having a lot of headline play on the Nuremberg trials, but there should be groups handling trials in every one of those camps.

Mr. NIXON. You said not a sufficient number. There are no courts and not trials for these people. We have some war-crimes trials, and by "war crimes" we meant people who shot parachutists, United States airmen, or something of that sort. We have some of that, but for this category of Gestapo men, SS men, Nazi Party officials, we have no trials; we have no definite plans for taking care of them. We have no plans right now for making them labor or for any punishment. They are going through this winter in Germany better off than the rest of the Germans.

The CHAIRMAN. A sort of reconstruction program that we are putting on for them to tide them over the hard times?

Mr. NIXON. Yes. We are teaching them handicraft, so they can return to normal life. That makes an impression on a Gestapo agent.

Further than that, the problem of these industrial leaders, sir, is very serious because we are on the verge of failing really to involve this very culpable group in the judgment that must be directed against Germany as a result of the aggressive war.

The CHAIRMAN. Mr. Nixon, I didn't have time when I was in Germany, but in Italy I was checking up and when the Fascist government took over any industrial leader, say a plant manager, who was not in sympathy with the party was replaced with somebody who was. I presume the same thing took place in Germany. On the other hand, we are following the policy of not replacing these men. Doesn't that have a bad effect upon the Germans in the denazification program, leaving these men in who probably had kicked some good German or good Italian out because that German or that Italian didn't agree with the totalitarian program? We come in and leave these people in. Doesn't that sort of hamstring our efforts at denazification of the common workers?

Mr. NIXON. That is right. We met this problem specifically when we talked to certain Germans who were not Nazis, who were afraid to come and work with military government because, they said, "The Nazis are going to come back. There is no indication that they are being wiped out, and we are afraid that a year from now they will be acting against us."

The CHAIRMAN. I am glad you got that specific one in, because I felt that that was going on.

Mr. NIXON. We have met that. I think that if you were to get intelligence reports, which undoubtedly would be available to you, you would find increasing evidence of concern of this sort.

The CHAIRMAN. Could I ask you one question at this point? What has happened to DICEA?

Mr. NIXON. Senator, I suppose you want a very candid answer to that question.

The CHAIRMAN. Yes. Be perfectly frank.

Mr. NIXON. DICEA ceased to exist on the 15th of December. I say ceased to exist, but that is straining the language a little bit. DICEA was stillborn. I don't know what reports have been made to this committee about it, but it is my judgment—and I think the record will bear it out—that the creation of DICEA was merely a way station on the drive to eliminate and to break up in Germany the only cohesive, hard-hitting group of people over there who were inclined to be tough on the Germans.

The CHAIRMAN. I am asking that question because I am very much interested. While I was in Germany, I asked the President to set up an organization to do exactly what you folks were supposed to do, and I know he issued the necessary orders. DICEA was supposed to be the answer.

Mr. NIXON. Let me illustrate it. This that I have in front of me is the organization plan of the Office of Military Government. It has in here pages of description of the functions of every division. This is the page for DICEA [indicating].

The CHAIRMAN. Four lines.

Mr. NIXON. Four lines. It says:

The functions and responsibilities of the Division of Cartels and External Assets are to be announced later, and appropriate responsibilities of other divisions will be adjusted correspondingly at that time.

On the 5th of December they increased it to have these additional lines which gave us some responsibility for investigating external assets.

The CHAIRMAN. In the investigation of external assets the basis of your investigation must be the records in Germany.

Mr. NIXON. That is right.

The CHAIRMAN. We have no way of going into Argentina and grabbing records, but if we have records in Germany, then we have something to go on. The same thing applies to Spain, Sweden, Switzerland, and every other nation. Therefore, it appears to me that DICEA or some similar organization is absolutely essential if we were going to disarm the German war machine.

Mr. NIXON. What has happened, of course, is that the two branches of work presumably to be done by DICEA have been divided. One of them is over in the Finance Division, external assets; and the cartel work is over under General Draper in the Economics Division. The fact is that the responsibility—

The CHAIRMAN. Do you know whether General Draper attended the conference on cartels?

Mr. NIXON. No; I don't know.

The CHAIRMAN. There were other representatives of Dillon Reed there. I just wondered if he was there collaborating.

Mr. NIXON. What happened on DICEA is that its functions were never defined. It never had a staff. It had a rump staff that we took over from the Finance Division. Then we got into this circle: "Since your duties are not defined, it is impossible to spell out what your staff needs are. Therefore, you can't get any staff until they are clearly defined, and we can't define your duties until certain other things are cleared up."

The CHAIRMAN. And you can't define your powers because your duties haven't been defined?

Mr. NIXON. Yes, sir. In addition, we had one curious thing. We were given a very impossible designation of space which showed us the status of the Division over there. The bulk of this space, except for the second floor over the enlisted women's mess, became available for occupancy in January 1946, about a month after the last gasp of DICEA.

You know perhaps better than I that there has been a controversy of long standing about our military government policies. In some degree the United States Treasury in the past has represented a vigorous point of view. Colonel Bernstein there in military government reflected that same point of view, and he had about him men who I think really wanted to destroy the German capacity to wage war, who felt strongly about these things. I don't like the terms "hard" and "soft" peace, because I think the problem isn't exactly that. It is a question of whom you are hard on and whom you are soft on. In any event, there was this kind of conflict and difference of opinion. For a long time I think there was an inclination on the part of important people in military government to get rid of this group around Colonel Bernstein who were ~~to~~ fly in the ointment. We agitated the situation on denazification. We were pushing hard on the question of the level of industry for Germany. We were aggressive about the elimination of cartels. All of these things seemed to be embarrassing in certain quarters.

The CHAIRMAN. Don't you imagine that some of the cartel records there might have been extremely embarrassing to certain groups in the United States of America, for instance, and in England?

Mr. NIXON. I think eventually when these reports become available that that will be found to be true.

The CHAIRMAN. Do you think the reports will ever become available in toto?

Mr. NIXON. They are prepared and made available to the Civil Affairs Division. I can't say beyond that. I don't know.

The CHAIRMAN. We can't make them available here in Washington.

Mr. NIXON. It is a question of making those that are finished available and of going through and doing the rest of the job that still remains to be done. We have only scratched the surface in Germany in these problems.

The CHAIRMAN. What is your opinion? In my opinion it would take 5 years thoroughly to analyze those records.

Mr. NIXON. I think that is correct. It is a tremendous job. I just learned last night that in our investigation of the German banks we are at least uncovering really sensational evidence of the involvement of the German banks in the German plans for waging aggressive war. We discovered, for example, that in 1937 General Kesselring called together the representatives of the Big Six German banks, two from each bank. He told them of the German plans to expand the German aircraft supply for military purposes and made arrangements and gave instructions at this secret meeting for the big banks to engage in the process of financing the expansion of this industry. From 1937 on, these banks were definitely involved in the finance aspects of rearming Germany for aggressive war. The records are replete with this kind of evidence. We found, for example, the existence of the secret account by Baron von Schroeder up in Cologne for the benefit and convenience of Reichsfuhrer SS Himmler, con-

tributed each year by what he called a circle of friends. This contributed each year a million reichmarks for the secret fund of Himmler. Contributing to this were each of the big banks in Germany. We had the bank slip that went between, for example, the members of the board of management of the Dresden Bank "O. K." To us this means the basic and fundamental involvement in the Nazi plan, and it should not be allowed to slip.

To come back to the question on DICEA, I don't want to go into that too much, but I would just point out that before DICEA was created, Colonel Bernstein was the head of the Finance Division, had a field staff, and had a quadripartite function. He was in a certain strategic position. On September 12, when the order dividing DICEA came out, he was given a very small staff. He had no quadripartite functions. He had very uncertain duties. He was only to investigate, with no power or relationship to policy. Of all the divisions in the military government, this was the only one that was put under the supervision of the legal adviser. As you know, Colonel Bernstein left very shortly and never returned. There was an effort made to define DICEA's jurisdiction, to give it some connection with policy. There was a feeling that just to investigate and make reports had no meaning unless you could relate that to what happened to cartels, to what happened to Germany's external assets. This was approved by General Clay in principle, but with reservations which made it ineffective.

When Colonel Bernstein left, I took over the responsibility for the Division, and almost immediately there was a general plan for the reorganization of the Office of Military Government, and we were all invited to indicate the needs we felt for a staff and the responsibilities we felt we should have. We did that and spelled out what we thought was a dignified proposal for the responsibilities of our Division as one of the nine divisions in military government, giving us some policy responsibility. This, of course, we were never given.

I was called in on the 8th of October by General Draper, by Mr. Bell, by Mr. Dodge, Colonel Bowie, and Colonel Whipple, and pressure was put on me to withdraw our claim to that kind of jurisdiction. It was a rather one-sided meeting, a very interesting one. We took the position that if we are to be a Division, we are to be a Division and not a stepchild, and that as far as we were concerned if that was not the inclination, then General Clay could make that decision. I called General Clay and told him about the disagreement, and he indicated he wouldn't do anything about it until he had talked to me.

Two or three weeks later we had a discussion on this matter in which he explained that it was impossible to define the responsibilities of DICEA until he knew whether Colonel Bernstein was returning. In the meanwhile, there had developed a controversy between the Treasury Department and the State Department over the status of the Treasury in the operation of military government, particularly as regards financial matters. This was evidently the substance of an exchange of communications between the Secretaries of War, State, and Treasury, which had a determining influence on whether Colonel Bernstein was to return. It is my understanding that the decision was unsatisfactory to the Treasury and to Colonel Bernstein, and he decided not to return.

When General Clay came back from his short visit to the United States on the 10th of November, he told me that Colonel Bernstein was not to return and asked me to stay as head of the Division. I made the point to him that under the circumstances, without defining our duties, without clarifying our status, without giving us a definite charter upon which to operate, and particularly as a result of the evident cutting off of the Treasury from these operations, it was not my judgment that there was a basis for effective operation. Consequently, I didn't feel capable, any more than Colonel Bernstein did, of assuming that responsibility without the authority that I thought would be necessary to do an effective job.

From then on, the development of DICEA merely dragged along. We did some significant investigations at this time. You can get the list of reports that we submitted, and I think they will be impressive. We have special letters of commendation for the kind of work that we have done over there from the Alien Property Custodian and others who have used our materials. We initiated at this very time the investigation of the big banks. We were working, but the existence of the outfit was limited, and by the 15th of December it was determined to put an end to the existence of the Division, which had existed in only a sort of half way, anyway, and to divide the work between the Finance and Economics Divisions.

That is the story of DICEA.

I don't know what motivation to impute to General Clay in this. I don't know what motivation to impute to others. It is only perfectly clear that the result of the last 6 months of development in Germany has been to eliminate the last cohesive group of people who are really strong about denazification, about wiping out concentration of economic power in Germany, about having a generally tough and faithful policy of implementing policy as far as the Potsdam agreement is concerned. Today this group is completely dissipated in Germany. About that there can be no question.

The last thing I wanted to cover was the question of the removals from positions of power and influence of Nazis in Germany. This I distinguish from the arrests of industrial leaders and financial leaders for trial. This is merely removing there people from positions of influence.

At the very outset General Eisenhower and General Devers and General Bradley instituted a pretty tough policy with regard to Nazis, and it was the order of the day to remove all Nazi Party members, of which there are about 7,000,000 in Germany, from positions of influence.

At the end of June we undertook to write a new directive to govern denazification. This directive, under the guidance of the Political Division, under the guidance of Ambassador Murphy, in its original draft was to remove the mandatory categories of removing Nazis who joined the party at any date and to make a very weak and discretionary application of denazification. There ensued a controversy inside the committees as a result of which we were able to establish, with the very effective collaboration of the Manpower Division and the Public Safety Division with our point of view, the date of May 1, 1937, as a good rough rule-of-thumb basis for dividing the mandatory removable from the nonmandatory removable. We issued the

basic directive July 7, the directive that came to be the guide in regard to removals.

On this point I ought to tell you a little bit about the division that we make on the first of May 1937. Generally speaking, we categorize as active Nazis those who joined the party before May 1, 1937, or those who were officials in the Nazi Party or its formations. Actually, the party lists were closed from May 1, 1933, to May 1, 1937, and you couldn't join the Nazi Party if you wanted to. Only a few groups from the SA, from the SS, from the Hitler Youth, and a few other very special cases were permitted to enter the party. The party was something to be sought after. So, actually what we do is to designate those who joined the party before May 1, 1933, as those who are in the mandatory removal categories. Those who joined afterward are presumably discretionary, and depending on the other factors in the case you make a judgment as to whether to remove them.

The original intention was that the discretionary would really be discretionary in the sense that ultimately a lot of them would be removed. Unfortunately, the inclination has been to make this discretion a one-way street, meaning pretty largely discretion to retain and not much discretion to remove.

In July, August, and September, this directive was applied pretty vigorously in some fields, in finance and civil affairs. We had a press conference in September, and we announced the removal of 25,000 Nazis from the banking and finance system of Germany. At the same time, we were running into the situation that we were doing this job, and in other fields, particularly transportation, communications, commerce, industry, post office, no denazification was being done. We were denazifying people out of finance, and they were going over into these other fields and getting jobs.

• The CHAIRMAN. How about school teachers?

Mr. NIXON. School teachers were being denazified; yes, sir.

We set up in the Finance Division a system of field teams, the only group that ever did that in Germany. We sent people out into the field to see to it that denazification was put into effect. These denazification teams, I think, did an outstanding job in removing Nazis and seeing that in our field the job was carried through. Incidentally and inevitably, we got a lot of information about what was happening in the other fields. As a result of the bad picture that existed at that time, we presented to General Clay in September a basic memorandum describing the deficiencies of the program. At the very same time, the press, which has done an outstanding job in Germany, a really outstanding job in Germany—particularly Ray Danniel of the New York Times and Carl Leven of the Herald Tribune—publicized the fact that Nazis were still in positions of power. He had his famous interview with General Patton, and as a result particularly of the Danniel story there was a big flurry of activity with regard to denazification.

Here I want to stop to make one point. A lot of things that have happened in Germany have happened in the nature of putting out fires. When Ray Danniel writes a story on denazification or on the kind of DP Army we have, then there is a big flurry of activity. When the Kilgore committee puts out a blast about I. G. Farben, then there is a flurry of activity, and something happens. But it has

been constantly on the basis of putting out fires after the thing has been pointed out to be in bad shape.

The CHAIRMAN. In other words, a spot cleaning up?

Mr. NIXON. Absolutely. That is what happened at this time. There was an issuance of a very strong position by General Eisenhower, who was always strongly in favor of denazification, the passage of Law 8, which was to remove Nazis from business and industry, and a general forward spurt in the whole operation. Very shortly thereafter, however, the spurt began to die down and the job of continuing to carry through the program began to deteriorate. We then ran into this kind of problem: Month by month we announced the completion of the job. On August 20 the Political Affairs Division said that the task of denazification was completed, except for rehabilitation and reeducation. This was even before the flurry of September. When Byron Price came over and made his report, he reported that denazification was completed and that in some cases we had gone too far and too fast. Month by month there has been a tendency to announce the job as complete. This flies in the face of the facts. Just let me indicate why.

On the 15th of December there was a report on the status of denazification by the Public Safety Division. You have to have in mind that there are about 17 million people who live in the United States zone, and there are probably 2½ million members of the Nazi Party in the United States zone. As of December 15, we had collected a total of 1,100,000 fragebogen—questionnaires. Of this total we had a backlog of 240,000 that we hadn't even looked at. We didn't know whether they were Nazis or not. On the basis of previous returns, probably around 40,000 or 50,000 of them were Nazis.

We have removed, according to these reports, about 200,000 Nazis from positions of influence. I do not for one minute want to detract from the significance of that. That is an accomplishment, but it is certainly wrong to look at that figure and say that the job is done. Under existing reports, there are at least 100,000 Nazis in the mandatory categories or in the categories where the Public Safety Branch has recommended removal who are still holding positions of authority. We are getting about 40,000 more fragebogen each month. There is just no basis for saying that we have gone too far and that we have completed the job, because we haven't. Our own figures will not bear it out.

An example of this spot operation that you mentioned is the case of the railroads. The railroads were the least effectively denazified of any group in Germany, although in their monthly reports you get no idea of it. They have a tendency to tell you how many they have removed and not to mention how many they haven't removed. That is a consistent pattern of report. You read the monthly reports, and you think everything is all right, but when I got ready to get on the plane in January I was given a list by a Social Democrat in Frankfurt, an official of the party, of the top Nazis who are still in the railroad system, a long list, and a list of people who would like to have jobs in the railroad system who are not Nazis. This also got into the hands of our investigating units, and our investigating units went out in the field and came back with reports of the extensive Nazi infiltration in the railroad system. Then it got into the papers. The New York Herald Tribune printed a story about all the Nazis in

the railroad system. Then a couple of days later, all of a sudden they are going to remove 4,300 mandatory removables from the railroad system and they are going to remove the German head of the railroad system, who is an old Nazi and an old Nazi railroad man—again indicating the way in which this thing is operated.

In December we sent joint investigation teams, finance teams, and public-safety teams out into the United States zone to investigate the status of denazification particularly with regard to Law 8, which applied to business and commerce. These reports came back showing the serious deficiencies in denazification, the tendency, particularly in business and commerce, to remove people and then to rehire them as laborers, so that the Nazi president of a company is fired as a Nazi and rehired in the position of a common laborer, which is purely a paper designation. He comes right back and does his job. This is not an exceptional situation. It is general in Germany. There is general evasion of this aspect of denazification. They pointed out many other examples, the names of the individuals, the offices they hold, and their Nazi records, as an indication that we still have a long way to go.

I have just heard from Germany that these reports have been ordered suppressed and destroyed by General Mead, the head of the Internal Affairs Division of OMGUS, and the head of Public Safety.

The question raises itself, why we have failed to do this job, why we have failed to accomplish this denazification. It is not a failure merely of adequate personnel. It is a failure of having people there who really vigorously believe in doing this particular job. At every level of military government, from one end of the zone to the other, we have encountered the arguments of expediency and convenience of retaining Nazis, the necessity of keeping things running, the dangers of angering the Germans and creating a dissatisfied bloc which would be ripe for communism, the resentment of lower headquarters against interference from higher headquarters, and in many cases the fantastic comparison of Nazi politics with Republican-Democratic rivalry in the United States. Responsible officers have cried out against the injustice of removing a Nazi without a hearing, in spite of the fact that such hearings were expressly prohibited. They argue that vigorous denazification lowers our prestige, as compared with the British who are reported to be not so vigorous. They have attacked Law 8 on the ground that it was Communist-inspired. It was instituted, you know, by General Eisenhower.

We ran into innumerable examples I could give you. We ran into one case, Colonel Starnes, former Congressman from Alabama, former member of the Dies committee, who was going throughout Germany representing a division of the United States group, Control Council, urging that detachments should ignore denazification and that they pick the men they needed to get German industry started.

In another example, the chief finance officer for all of Land Baden Württemberg, Lt. Col. George Auffinger, in dealings with our field investigators consistently maintained that denazification would drive the German people into the hands of the Communists, that we did not destroy one dictatorship in order to build another, that we must preserve a bulwark against Russia. Colonel Auffinger, incidentally, has a long record of stubborn opposition to denazification.

Major Scholley, former finance officer at Mannheim, on August 23 described denazification as "witch-hunting." Lt. J. P. Varda, one of the MG officers in the Bavarian detachment, described it as an irksome and irrational obsession of higher headquarters, stated that removal created a bloc of dissatisfied Germans who became ripe for communism and also created a public safety problem by arousing the anger of those Germans.

I don't want to give you the impression that there are not exceptions to this. We ran into some fine exceptions, men who really were interested in doing the job of denazification. As a result, in part, of their activity, we have accomplished what we have accomplished. But the type of attitude that I have just recounted is not the exception. It was characteristic of the general attitude that we ran into throughout Germany.

That is all I want to say about the record over there. There is much more that could be said. I want to make one other point.

As I left Germany the plan was being developed for turning the denazification policy over to Germans. General Clay had appointed a Denazification Policy Board consisting of Mr. Fahy, as chairman, Ambassador Murphy, Mr. Dodge, General Draper, and General Mead. They had working for them a working committee. In these discussions the former groups who had fought for vigorous denazification in the past were pretty much out of the picture, and the picture was now dominated by men who had either been positively unsympathetic in the past or who at least had not had a record of pushing denazification. Their whole attitude was one of easing up on denazification. Their proposal was to turn the program over to Germans. In some respects there can be no objection to that, but there was no assurance that we were going to have Germans who were positively anti-Nazis, who were anti-Fascist Germans who believed aggressively in democracy. We received from the Germans, as part of their plan, a proposal from the German ministers of justice as to how they would have denazification handled. That proposal is fantastic, because it would completely wipe out denazification.

They propose, for example, that a mitigating factor in judging a Nazi was if he had substantial losses in the war, or if he was a regular attendant at church, or if he had lost relatives in the war, or if he had made a substantial contribution to the community. Their most vigorous punishment for the top Nazis was confiscation of their property and loss of civil rights for, I think, 5 years. But for the person who wrongfully or recklessly charged a person with being a Nazi, under the terms of their law, they were going to give him 5 years in prison and 5 years' loss of all civil rights. They reserved their tougher punishment for the man who was interested in charging that other people were Nazis.

It is not irrelevant that one of the ministers-president is a former member of the German State Party, who praised Hitler's policy in the Reichstag in 1933 when Hitler was taking it over. Another has been attacked by his fellow Germans as being reactionary and opposed to the denazification program. One of the ministers of justice was a contributing member to the SS.

These men are not going to carry through the important and subtle task of doing the job of denazifying Germany. It is just unavoidable

to recognize that in Germany the antidemocratic, militarist, Nazi, Fascist principles still predominate in the minds of the German people, and there is no evident basis to justify—certainly there is none in the plans that exist at the present time—turning over this program to the Germans. We do not have assurance, on the basis of our record, that the kind of supervision that would be forthcoming from the few Americans left in a relationship to this problem would be enough to overcome the lethargy, the lack of understanding, and the lack of sympathy on the part of the vast bulk of the German people with regard to the fundamental objectives of denazification. Because of that, I am gravely concerned not only that our accomplishments have not yet been completed, but particularly because of this phase of our development we jeopardize what we have done and we threaten the possibility that the job will not be completed and, worse than that, that what we have done will be abandoned in the months to come.

That is all I have, Senator.

The CHAIRMAN. Thank you, Mr. Nixon.

If you have time in the next few days, I wonder if you would check to see if you have anything to add to this in the way of exhibits.

We appreciate your coming up here. Your testimony has been most interesting because it shows what a long way we have to go, and it also illuminates some of the things that have had people in the United States puzzled.

Mr. NIXON. I think the people are sort of like that stock market in Germany. The people are puzzled here with good reason, and they are not wrong in being puzzled.

The CHAIRMAN. I have two items which I want to make a part of this record. One is a statement which I made in December. The other consists of excerpts from the Nuremberg trial indictment.

(The material referred to follows:)

CAN WE AFFORD TO REVIVE NAZI INDUSTRY.—STATEMENT BY SENATOR HARLEY M. KILGORE, DECEMBER 21, 1945

I am profoundly disturbed by a number of recent events pointing to an attitude on the part of some of our key officials which countenances and even bolsters Nazism in the economic and political life of Germany. The Byron Price report, the document on Germany lately issued by the State Department, and the facts about the conduct of our military government revealed at the hearings of the Senate Subcommittee on War Mobilization, indicate that our original objective of destroying Germany's war potential has gone awry. This first and vital consideration for guarding the peace of the world and the welfare of its many peoples is being sacrificed to an appearance of magnanimity towards a vanquished foe. I should like to ask: What is masked by this appearance of magnanimity? For what private and selfish ends are our national security and the security of our allies placed in jeopardy?

It has become clear that despite the feasibility of destroying Germany's industrial potential for war without starving her population, reports indicate that some of our military government administrators in Germany have so far signally failed to carry out the Potsdam Agreement for making Germany provide reparations to her victims and at the same time securing an effective industrial disarmament. These administrators have blinded themselves to the role played by German industry in the Nazi aggressions and to the fact that the German economy as now constituted is a powerful menace to the peace of the world—more powerful in many respects than it was in 1939. They take the position that German businessmen are politically neutral and that no effort should be made to penalize German industry or prevent it from recapturing its prewar position in world markets. The attitude of these military government officials is an outgrowth of their connections with industrial and financial enterprises which had close prewar ties with the

Nazis. They are still sympathetic to the cause of cartelism and to their old German cartel partners. And they look forward to resuming commercial relationships with a rehabilitated German industry whose leading figures are well known to them, rather than to striking out on new paths of economic enterprise. However earnest the public statements of General Clay, deputy military governor for Germany, the men he has appointed to positions of control—William H. Draper, of Dillon, Read; Rufus Wysor, of Republic Steel; Laird Bell; Frederick Devereux; J. Boyd and others—are apparently fundamentally opposed to the deindustrialization program. Nazi industrial organization is not repugnant to them and they have shown every disposition to make their peace with it.

In this willingness to compromise with the most dangerous aspect of nazism, they have apparently found support from the State Department, which, while it still pays lip-service to industrial disarmament, has in fact redefined the Potsdam agreement so as to permit the rebirth of Germany's industrial war machine, I believe without concurrence by the President. And they have had as well the co-operation of the Army. Because of their background and training our military officials believe that successful conclusion of military operations is their main objective. They are not primarily concerned with eradication of the Nazi philosophy, no matter how hostile it may be to the country they represent. For that reason they fail to go below the surface and cannot wholeheartedly work for an objective which means the setting up of a new philosophy within a nation which they have conquered by arms. For that reason I believe men more conversant with these ideas would be better equipped to define and implement policy than men whose training is strictly military. Furthermore, our military men look for perfection of organization without regard to the type of persons they employ and for that reason they are prone to accept Nazis who have held administrative positions rather than to train new people. In Italy, for instance, high military officials complained to me that the Italians had ruined the operation of the automobile plants by killing off the managers who were Fascists after the Italian people had tried them and directed their execution by appropriate courts.

Nowhere has the reluctance of American occupation officials to carry out the Potsdam agreement been demonstrated more forcefully than in the case of I. G. Farben, monster German chemical combine without whose facilities Germany could not have waged war, which was at one with the Nazi government in planning, executing, and reaping the profits of Germany's aggressions, and whose wartime capacity is still more than 80 percent intact. It would be impossible to disarm Germany industrially without breaking up I. G. Farben. Nevertheless, although directives to encompass this end were issued as long ago as last July, documentary evidence presented to the Senate Subcommittee on War Mobilization this month states that "No I. G.-owned plants have been destroyed," and "No I. G. or Montan (owned by the Government but operated by I. G.) plants are earmarked for destruction." The American control officers in charge excused their failure to order the destruction of explosives plants with statements such as "The equipment is too massive to dismantle," or, as in the case of the poison gas plant in Gendorf, "This is a war plant and is available for reparations. It is felt, however, that the plant would aid in the over-all economy of Bavaria to such an extent that the plant should not be made available for reparations." The top officer in command of the disposition of Farben properties, Colonel Pillsbury, said that the accomplishment of the July directive was not "practicable."

Officials in the State Department and in the military government who are helping to revive German industry argue that the guaranty of a minimum German standard of living requires the revival of German industry and export trade to pay for the importation of food and other necessities. This is a distortion of the Potsdam agreement, which did not guarantee the Germans a minimum standard of living, but on the contrary provided only that the maximum standard should not be higher than that of the surrounding countries. The concern of some of our officials with this problem is the more curious in that Germany's standard today is higher than that of most of the countries she ravaged. In order to provide for a German caloric value in excess of that of her former victims, these officials are planning to reconstruct German industries. They do so in full knowledge that the dismantling of those industries would provide raw materials and capital goods whose acquisition by the victim nations would promote their development and break their dependence upon German industry. Our policies should not aim to deprive the German people of the means of subsistence. But our prior concern should be the requirements of the nations who were allied with us in the fight against nazism. We should be less preoccupied with time-

tables for rebuilding German industry and more preoccupied with the rehabilitation of our allies.

It would, moreover, be false to assume that industrial disarmament means starvation for Germany. For 50 years, the imbalance of the German economy, with its overemphasis on munitions and munitions-supporting industries, was carefully nurtured. In designing an economy whose function was to prepare the nation for war, agricultural production was deliberately dwarfed until just before the outbreak of World War II. There is every reason why this agricultural production should be further expanded. It is absurd to follow any prewar pattern in reconstituting German industry. In Germany there was no "normal" prewar pattern. Unless we make basic and fundamental changes in the German economy, we shall be perpetuating the type of organization that is itself an incitement to war.

I have this consideration in mind when I am critical of the State Department's recent report on Germany, which declares that the United States does not "selfishly" wish to weaken "German industries of a peaceful character in which Germany has produced effectively for world markets." In this context "peaceful industries" is a contradiction in terms. Congressional investigations have shown how Germany insidiously used the "peaceful industries" in which she supplied world markets as effective weapons of economic warfare, to secure a stranglehold upon and cripple the vital production of nations marked for conquest. It would be suicidal for American policy to aid in rebuilding such industries, jeopardizing our national security and world peace for the sake of short-term cartel profits to a few corporations whose views prevailed in the councils of our military government.

EXCERPTS FROM THE NUERMBERG TRIAL INDICTMENT

The parts of the indictment having to do particularly with industrialists are count 1, part IV, E, and count 3, E.

Count 1 (the common plan or conspiracy), part IV (particulars) reads:

"(E) *The acquiring or totalitarian control in Germany: Economic; and the economic planning and mobilization for aggressive war*

"2. They used organizations of German business as instruments of economic mobilization for war.

"3. They directed Germany's economy toward the preparation and equipment of the military machine. To this end they directed finance, capital investment, and foreign trade.

"4. The Nazi conspirators, and in particular the industrialists among them, embarked upon a huge rearmentment program and set out to produce and develop huge quantities of materials of war and to create a powerful military potential. * * *

Count 3 (war crimes) (E) Plunder of Public and Private Property, recites the systematic exploitation of occupied countries. Among the practices cited are:

"2. They seized raw materials and industrial machinery in all of the occupied countries, removed them to Germany and used them in the interest of the German war effort and the German economy * * *

"4. In an attempt to give the color of legality to illegal acquisitions of property, they forced owners of property to go through the forms of 'voluntary' and 'legal' transfers * * *

"9. From their program of terror, slavery, spoilage and organized outrage, the Nazi conspirators created an instrument for the personal profit and aggrandizement of themselves and their adherents. They secured for themselves and their adherents: (a) Positions in administration of business involving power, influence, and lucrative perquisites; (b) the use of cheap forced labor; (c) the acquisition on advantageous terms of foreign properties, business interests, and raw materials; (d) the basis for the industrial supremacy of Germany."

Appendix A to the indictment presented on November 20 shows the relationship of the individuals to the various counts. Gustav Krupp, who was indicted but for reasons of health removed from the trial, was described as follows:

"The defendant Krupp was between 1932 and 1945: head of the Friedrich Krupp A. G., a member of the General Economic Council, president of the Reich Union of German Industry, and head of the Group for Mining and Production of Iron and Metal under the Reich Ministry of Economics. The defendant Krupp used the foregoing positions, his personal influence, and his connection with the Fuehrer in such a manner that: he promoted the accession to power of the Nazi

conspirators and the consolidation of their control over Germany set forth in count 1 of the indictment; he promoted the preparation for war set forth in count 1 of the indictment; he participated in the military and economic planning and preparation for the Nazi conspirators for wars of aggression and wars in violation of international treaties, agreements, and assurances set forth in counts 1 and 2 of the indictment; and he authorized, directed and participated in the war crimes set forth in count 3 of the indictment and the crimes against humanity set forth in count 4 of the indictment, including more particularly the exploitation and abuse of human beings for labor in the conduct of aggressive wars."

In the opening statement Justice Jackson, the chief American prosecutor said: "On November 30, 1934, a decree 'regulating national labor introduced the fuehrer's principle into industrial relations. It was by such bait that the great German industrialists were induced to support the Nazi cause, to their own ultimate ruin. * * *

"Financiers, economists, industrialists, jointed in the plan [to put Germany on a war footing] and promote elaborate alterations in industry and finance to support an unprecedented concentration of resources and energies upon preparation for war. * * * These preparations were of a magnitude which surpassed all need of defense and every defendant, and every intelligent German, well understood them to be for aggressive purposes."

In the presentation of evidence on the economic preparation for aggressive war, on November 23, 1945, it was said:

"The Nazi Government officials provided the leadership in preparing Germany for war. They received, however, the enthusiastic cooperation of German industrialists. The role played by the industrialists in converting Germany to a war economy is an important one * * *."

(Whereupon, at 3:50 p. m., the committee adjourned, subject to the call of the chairman.)

ELIMINATION OF GERMAN RESOURCES FOR WAR

WEDNESDAY, MARCH 6, 1946

UNITED STATES SENATE,
COMMITTEE ON MILITARY AFFAIRS,
SUBCOMMITTEE ON WAR MOBILIZATION,
Washington, D. C.

The subcommittee met at 10:15 a. m., pursuant to call of the chairman, in the Senate Military Affairs Committee room, the Capitol, Senator Harley M. Kilgore, of West Virginia (chairman) presiding.

Present: Senator Harley M. Kilgore, West Virginia, and Senator Elbert D. Thomas, Utah.

Also present: Dr. Herbert Schimmel, chief investigator.

The CHAIRMAN. The committee will come to order.

The witness this morning is Maj. Gen. John H. Hilldring.

General, for the benefit of the record, will you state your official capacity?

TESTIMONY OF MAJ. GEN. JOHN H. HILLDRING, DIRECTOR, CIVIL AFFAIRS DIVISION, WAR DEPARTMENT

General HILLDRING. All right, sir. John H. Hilldring, major general, Director, Civil Affairs Division, War Department.

At the request of Senator Kilgore, I have prepared a statement on the subject of displaced persons in Germany and Austria. Rather than read this lengthy statement, Senator, I would like to summarize it and give you the full statement for incorporation in the record, if that is agreeable to you, sir.

The CHAIRMAN. That is agreeable. Your prepared statement will be made a part of the record at this point.

(The statement referred to follows:)

PREPARED STATEMENT BY MAJ. GEN. JOHN H. HILLDRING, ON DISPLACED PERSONS IN GERMANY AND AUSTRIA AND ON RECORDS OF NAZI PARTY MEMBERS OUTSIDE GERMANY

The Nazi practice of exploitation and extermination of human beings left in its wake one of the most complicated and perplexing problems confronting the Allies in the occupation of Germany and Austria. This was the problem of displaced persons. As the Germans overran Europe, they deported to Germany millions of persons of all nationalities—French, Belgian, Dutch, Czech, Yugoslav, Polish, Baltic, Russian, and many others. In addition many persons of enemy nationality, such as Hungarians, Rumanians, and Bulgarians, were brought to Germany. These millions of persons were exploited by the Nazis in a variety of ways connected with the German war effort. Many were forced to build fortifications along the French coast, the Siegfried Line, and the eastern front. Many were drafted for labor in munitions factories. Others were used as agricultural laborers. Still others were used in paramilitary formations of the Wehrmacht. As the German labor shortage became more acute, greater reliance

was placed on these laborers, and the last drop of sweat was squeezed from them to bolster the Nazi war machine. Simultaneously, the Germans embarked upon a campaign of mass murder of millions of persons throughout areas of Europe under their control. Many of these racial, religious, and political prisoners were brought to concentration camps in Germany and Austria to be worked or starved to death or to be scientifically massacred.

Before D-day it was impossible to estimate with any degree of accuracy the number of unfortunate persons in these categories who would be found alive when the Allied armies finally conquered Germany. Nevertheless, detailed plans were made to cope with many contingencies.

The liberation, care, and repatriation of United Nations displaced persons was recognized as a major Allied objective. From the strictly military point of view, it was desired to prevent hindrance to military operations or military government by uncontrolled movement of displaced persons and refugees. Equally important was our recognition of the privations suffered by these displaced persons and our desire to relieve conditions of want among them, to protect them against interference or ill treatment by the Germans, and to effect their rapid and orderly repatriation.

A large segment of our mission has already been successfully completed. Out of over 6½ million displaced persons in the western areas of Germany, over 5½ million have already been repatriated. The United States Army contributed materially to this achievement by repatriating over 2,700,000 from areas under its control. The completion of this phase of the displaced persons program has been due to remarkable cooperation and initiative on the part of the various military and civilian agencies involved. In retrospect it is impossible to credit any single organization or individual with sole responsibility for these achievements. From before D-day until July 1945, the actual responsibility for planning and operation rested with Supreme Headquarters, Allied Expeditionary Force (SHAEF). Cooperating with SHAEF during this entire period were representatives of civilian agencies such as United Nations Relief and Rehabilitation Administration (UNRRA) and the Intergovernmental Committee on Refugees, representatives of all of the Allied Nations having nationals in Germany, and many voluntary agencies working under the coordination of the UNRRA. Within the Military Establishment itself, there was a degree of cooperation and improvisation which is a tribute to our military organization and that of our Allies. SHAEF integrated the activities of the British, American, and French Armies under its command, and also coordinated with United States forces in Austria, Supreme Allied Commander, Mediterranean (SACMED), and the Soviet military authorities.

After the termination of SHAEF in July 1945, the Commanding General, United States Forces, European theater, assumed responsibility for displaced persons within the United States zone of Germany. However, the techniques of cooperation developed during the period of combined command were effectively continued. For example, the former displaced persons section of G-5 SHAEF, consisting of United States, British, and French officers, was continued for about 3 months as the Combined Displaced Persons Executive. Later, some of the functions of the Combined Displaced Persons Executive were assumed by UNRRA and others by the Combined Repatriation Executive, which was established on a quadripartite basis by the Control Council. Continuity was also assured by continuation within the United States zone of the policies established previously by SHAEF and of existing arrangements with UNRRA.

Before discussing the special problems created by displaced persons, particularly by those who have not yet been repatriated, I would like to give the committee a brief chronological survey of the policies and procedures carried out during the period of mass repatriation.

Toward the end of 1943 SHAEF began to develop plans, in coordination with Allied Governments and UNRRA representatives, for dealing with displaced persons' problems. On June 4, 1944, instructions relating to the control, care, relief, and repatriation of displaced persons were issued in the form of an "outline plan" to Army group commanders. These were supplemented by detailed instructions issued as SHAEF Administrative Memorandum No. 39 on November 18, 1944 (revised April 16, 1945), and in the Guide to the Care of Displaced Persons in Germany (revised May 1945).

Under these instructions, displaced persons uncovered by military forces were assembled in collecting points or areas, where they were given food, temporary shelter, and first aid. From there they were directed to assembly centers, where they were cared for until their repatriation was possible. When uncovered in

areas of rapid military advance, they were directed to stand fast until arrangements could be made to collect them in assembly centers. As soon as conditions permitted, United Nations displaced persons were returned to reception centers in their own countries, where their governments assumed full responsibility for them. In liberated countries, such as France and Belgium, the care of displaced persons was a responsibility of the Allied Governments concerned, assisted and advised by a SHAEF mission and, after the dissolution of SHAEF, by United States Forces, European theater (USFET), and British military missions.

In enemy territory, United Nations and Italian displaced persons were a direct responsibility of the Allied forces, while ex-enemy displaced persons were made the responsibility of enemy authorities supervised by military government.

Here are some examples of how these instructions were implemented: European Allied Governments provided large numbers of liaison officers for repatriation, to be employed by military commanders to assist in the control, identification, care, and repatriation of their nationals. At one stage in the program, as many as 800 liaison officers were deployed representing France, Belgium, Holland, Czechoslovakia, Union of Soviet Socialist Republics, Poland, Norway, Luxemburg, Italy, Greece, Denmark, and Yugoslavia. UNRRA provided specialist and administrative personnel, to assist in the displaced persons staff work at various headquarters, and assembly center teams to be employed by military commanders in administering United Nations assembly centers. This contribution will be discussed in more detail later. A limited number of military government detachments were trained and assigned for special work in dealing with displaced persons. Finally, many of the governments established within their own countries adequate reception facilities to which their nationals could be returned.

As the German armies were driven back from France and the low countries, they tried to evacuate as many displaced persons as possible in order to conserve their labor for the defense of Germany. As a result, fewer than 100,000 displaced persons were uncovered by Allied armies west of the Rhine. During the period of disintegration, as Allied armies converged upon Germany from all directions, the Germans changed their previous tactics of evacuating displaced persons to the rear. Instead they tried to force hundreds of thousands of displaced persons into Allied supply lines. Thus military commanders were presented with a problem of controlling movement and supply characterized at the time as second in importance only to actual military operations against the broken Wehrmacht. The challenge was successfully met.

Displaced persons were rapidly brought under control, organized repatriation movements to western countries began almost immediately, and uncontrolled mass movement of displaced persons in rear areas was eliminated in several weeks. This pattern was repeated in every new area uncovered by Allied forces. At least 2 weeks elapsed before the displaced persons, many of whom were bypassed by fast-moving troops, were collected, moved off the main roads, and a satisfactory degree of control established.

Seriousness with which all Army commanders regarded the problem is emphasized by the fact that during the early stages it was treated as a direct command, rather than a military government, responsibility. Where consistent with military operations, combat units were utilized in the care and control of displaced persons. Thus, in the Sixth Army group, 80 specially trained teams, with personnel drawn from combat units, were pressed into service; in the Ruhr, the Ninth United States Army utilized 4 infantry divisions to deal with displaced persons; in the Rhineland and Saarland, corps commanders each assigned an artillery group to direct displaced-persons operations in the area. These combat units supplemented the work of several score special military government displaced-persons detachments which had received many months' intensive training. By May, more than 100 UNRRA teams were in the field assisting the military. Although within a short time after VE-day mass movements of displaced persons along the roads had all been stopped, displaced persons continued to be uncovered in large numbers, particularly in large cities and on farms. Moreover, many thousands made their presence known only when they learned of definite opportunities for repatriation.

The peak period of repatriation was reached during late May and early June, when 60,000 to 80,000 displaced persons were being repatriated daily as a result of simultaneous movements of western Europeans and Soviet citizens. The problem of western Europeans was virtually solved during this period, except for a few thousand. Hundreds of thousands of these western Europeans were evacuated or repatriated during this period by air. For example, out of 1,500,000 Frenchmen repatriated, more than 150,000 were returned by air. The return of

Czechs was also completed with the repatriation of an estimated 100,000 through the centers at Pilsen and Budweis.

Although some informal exchanges of Soviet citizens had actually taken place when British and United States forces first established contact with the Red army, mass transfer of Soviet citizens officially began with the signing of the Halle agreement on May 22, 1945. Movement was halted temporarily following the withdrawal of British and United States forces from Thuringia, Saxony, Magdeburg, and Mecklenburg, but recommenced on July 14. Altogether over 2,000,000 Soviet citizens were repatriated from western Germany. Informal movement of Italians began in early June. A series of conferences at Bolzano, Frankfurt, and Bern among representatives of SHAEF, Allied Forces Headquarters (AFHQ), and Swiss authorities subsequently resulted in formal agreements for movements of Italians across the Brenner Pass and through Switzerland. Almost 600,000 Italians have been repatriated pursuant to these agreements.

In coping with the enormous task of handling displaced persons, the military authorities have received valuable assistance from UNRRA. I have already mentioned the participation of UNRRA in planning before D-day. The blueprint for assistance by UNRRA in the military period was established in the agreement of November 1944 between General Eisenhower, as Supreme Commander of the Allied Expeditionary Force, and Governor Lehman, Director-General of UNRRA. The stated objectives of this agreement were to facilitate the assumption by UNRRA in the postmilitary period of those responsibilities with which it might be charged and to insure a continuous uniformity of policy in the military and postmilitary periods. Among the specific measures provided by the agreement were that UNRRA liaison officers would be attached to SHAEF for assistance in coordination of planning and subsequent operations and that UNRRA would provide personnel for the purpose of planning and assisting the military authorities in carrying out displaced-persons operations. UNRRA also undertook to coordinate and supervise the activities of nongovernmental civil agencies engaged upon work for displaced persons.

As a result of this agreement, the military authorities issued instructions that UNRRA personnel should replace military personnel to the maximum extent possible, and as soon as possible, in handling displaced persons. A phased schedule was established calling for deployment of 450 UNRRA teams by May 15, 1945. Due to numerous difficulties, the first UNRRA teams did not enter Germany until April, and then only in spearhead teams of 7 rather than the full number of 13. Fortunately, during the months of May, June, and July, deployment of UNRRA teams was increased rapidly from about 100 spearhead teams on the 1st of May to 350 complete teams on July 15. There are now about 4,600 UNRRA personnel in the western areas of Germany; and, with but few exceptions, the actual administration of the centers is in charge of such personnel. UNRRA has its own central headquarters covering the United States, British, and French zones of Germany.

In deploying UNRRA teams and in expanding to the fullest possible extent the responsibilities of UNRRA under the SHAEF-UNRRA agreement, the military had in mind the desirability of facilitating early turn-over to UNRRA of complete responsibility for displaced persons. In the United States zone, it was planned to hand this responsibility over to UNRRA on October 1, 1945. This action was made impossible, however, by passage of Resolution No. 71 at the UNRRA Council meeting in August. This resolution prohibited UNRRA from furnishing basic supplies, equipment, and transportation to displaced persons in Germany. Due to this continued necessity for furnishing supplies, it was necessary for the military to retain basic responsibility for displaced persons while at the same time enabling UNRRA to furnish the maximum amount of assistance permitted by its charter and resolutions. As mentioned previously, the SHAEF-UNRRA agreement was continued in the United States zone until a new agreement could be concluded which would take into account the effect of the UNRRA Council resolution. This new agreement actually came into effect in February 1946.

In addition to operating the displaced persons centers, UNRRA has performed an extremely useful function in coordinating and supervising activities of voluntary relief agencies on behalf of displaced persons in Germany. In this way the experience of many sectarian and nonsectarian agencies in relief has been utilized with a minimum of confusion.

UNRRA, through its Central Tracing Bureau, has also taken over from the military authorities the important and burdensome task of locating displaced persons for the benefit of their relatives throughout the world. In addition, as of October 1, 1945, UNRRA Central Headquarters for Germany took over from the

Combined Displaced Persons Executive the responsibility for statistical reporting with respect to displaced persons in British, French, and United States zones of occupation in Germany.

As a result of the extensive mass repatriation operations described above, repatriation of the following nationalities is considered complete, with minor exceptions: French, Dutch, Belgian, Luxemburg, Danish, Norwegian, Italian, and Soviets. However, there still remain in the United States zone of Germany approximately 500,000 displaced persons, of whom about 325,000 are in assembly centers. The Poles, numbering about 200,000, constitute the largest single group still on hand. Other identifiable nationalities receiving United Nations treatment are Latvians (43,000), Lithuanians (31,000), Estonians (16,000), and Yugoslavia (20,000). In addition, there are in the United States zone approximately 45,000 Jews of all national origins, including some who recently entered the zone from other areas.

The problems raised by some of the remaining groups are unique and must be considered separately from the type of problem encountered among the groups who could be repatriated promptly en masse.

A special problem was created by the survivors of those groups who had been singled out by the Nazis for extermination. The SHAEF instructions provided that, regardless of nationality—whether Allied, enemy, neutral, or stateless—persons who had been persecuted because of race, religion, or activities in favor of the United Nations were to receive the same assistance as United Nations nationals.

However, many of these persons were found in such appalling condition that it was necessary to give them special consideration in order to attempt to raise them to the physical level of other displaced persons.

Our military leaders, though constantly exposed to the horrors of war, were shocked by the unspeakable condition in the Nazi concentration camps. General Eisenhower promptly summoned a representative delegation of Congressmen and newspaper editors to view these conditions. The verdict of this delegation has been echoed by every other person who witnessed these concentration camps: the perpetrators of this infamy must be punished; the survivors must be helped.

Some of the survivors, I regret to say, were already beyond help. Their glazed eyes and shriveled bodies were evidence that for them liberation had come too late. For the others, the ones who could be saved, we regarded it, and still regard it, as a sacred duty to render the maximum assistance possible.

Many of the concentration-camp victims were political opponents of the Nazis, representing many nationalities in addition to German. As soon as these were well enough to travel, they were returned to their native countries, or to their former residences within Germany. Among the victims, however, were Jews of all nationalities. Five million of their coreligionists had been murdered by the Nazis during the war. Many of the ragged remnants had no desire to spend the remainder of their lives in the morgue. These had to be cared for until they could be resettled elsewhere in accordance with their desires. In our zone it was decided that these unfortunate persons could best be afforded the specialized treatment they needed in separate centers. As a result of this policy, we now have a number of large centers for Jewish displaced persons. Because these persons are remaining in Germany only temporarily, and because the German economy has been so completely disrupted, it has proved most practicable to keep the groups as communities, rather than to disperse them as individuals. Wherever possible, these persons have been billeted in German homes from which the occupants have been evacuated. In many cases, it has been necessary to accommodate them in barracks.

The unique and urgent nature of the problems affecting Jewish displaced persons prompted General Eisenhower last August to request the War Department to furnish an outstanding Jewish civilian as his adviser on Jewish affairs.

Maj. Judah Nadich, senior Jewish chaplain in the European theater, served temporarily in this capacity until the appointment of Judge Simon H. Rifkind. Under General Eisenhower and subsequently under General McNarney, Judge Rifkind has performed a critical task with remarkable skill and understanding. Representatives from the principal American-Jewish organizations have frequently visited our zone under UNRRA auspices. Their suggestions for improvement of conditions have proved very useful. Outstanding social and relief work has been performed in the assembly centers by trained workers from various voluntary agencies, notably the Joint Distribution Committee, operating under the coordination and supervision of UNRRA. The Jewish displaced persons are now anxiously awaiting the recommendations of the Anglo-American Committee of

Inquiry on Palestine which are expected to have an important bearing on their future. Meanwhile, every effort is being made to continue improvement in conditions of food, clothing, housing, education, and vocational training.

Another difficult problem—screening—has been encountered in the course of handling displaced persons who have thus far elected to remain in Germany. Initial plans called for elaborate and detailed registration of displaced persons. A careful distinction was to be made between those entitled to preferred treatment, because of loyalty to the United Nations, and those who were not. However, due to the large numbers of displaced persons handled in a short period of time, it was not possible until recently to undertake thorough screening of displaced persons. Upon conclusion of mass repatriation, procedures were established for eliminating from the camps those persons who were not entitled to receive United Nations displaced-persons treatment. Under existing directives, the military authorities are now authorized to screen all displaced persons for pro-Nazi or pro-Fascist tendencies and to discharge persons in those categories from displaced-persons camps. In addition, they are authorized to repatriate, without regard to their individual wishes and by force if necessary, those displaced persons desired by their governments who have actively collaborated with the enemy.

Another special problem has occurred in connection with handling of Soviet citizens. The Yalta agreement of February 11, 1945, provided for mutual assistance by the United States and Soviet Union in care and repatriation of their respective citizens. When repatriation had been completed of those Soviet citizens who desired repatriation, the problem arose as to whether our troops would be required to compel the repatriation of those comparatively few Soviet citizens who had indicated that they would not voluntarily return to the Soviet Union. A directive was issued which provided that such persons should not be forcibly repatriated unless they were captured in German uniforms or deserted from the Red army or collaborated actively with the enemy. The provisions of this directive are now being carried out. Baltic nationals have not been considered by the United States to be Soviet citizens within the scope of the Yalta agreement unless they affirmatively claim such citizenship and their claim is accepted by the Soviet authorities.

I have spoken mostly of displaced persons in Germany. The United States forces in Austria have also made a notable contribution to the solution of displaced-persons problems. Under Gen. Mark Clark, the American Army has repatriated 500,000 displaced persons of many nationalities. The situation in Austria was initially complicated by large numbers of Germans who were draining Austrian resources by their continued presence. General Clark met this problem by repatriating most of these persons before winter, so that of the 160,000 present before repatriation began, less than 10,000 now remain. The United States zone in Austria has been a key route for movement of displaced persons from Germany to southeastern Europe. The latest statistics from the United States zone of Austria indicate that a total of 200,000 displaced persons are still on hand. Out of this number approximately 50,000 were United Nations nationals who were accommodated in centers. The remaining 150,000 consisted of enemy or ex-enemy nationals—Bulgarians, Germans, Hungarians, Rumanians, Sudetens, and Volksdutsche.

There is one other matter which Senator Kilgore asked me to take up today. The Army discovered, in the United States zone in Germany, the membership records of the Nazi Party, and has taken them to Berlin for use by the four occupying powers in administration of military government.

Since the 20 tons of records were in a chaotic state when they were discovered, the job of putting them in order has taken time. As these records are reorganized, Army personnel is microfilming membership cards and related documents covering party membership outside of Germany and Austria for transmittal to this country. The microfilms are being forwarded to the War Department as they are made and will continue to arrive until sometime in May. At the request of Senator Kilgore, the War Department has already furnished the subcommittee with the first two rolls of film. Today I am delivering rolls 3, 4, and 5. On the request of the subcommittee, we are transcribing that portion of the material in these first five rolls which relates to the United States and Argentina. This work will be completed and forwarded to the committee within a few days. I must emphasize, however, that the original records were made by Germans, and not by the Army, and that the War Department cannot vouch for their accuracy. Also, since the job of going through the entire file in Berlin has not yet been completed, the microfilms received here thus far may not cover any country completely. Finally, we have found it very difficult to read microfilms of the German script, in which many of

the entries on the party membership cards are made and cannot be sure that our transcription of this material is accurate in all cases.

General HILLDRING. As the committee knows, it was the Nazi practice to exploit and frequently exterminate the displaced persons in Germany and Austria. The record of the treatment of displaced persons, those slave laborers who had been imported into Germany by the Nazis, is, as everyone knows, one of the sorriest pages in history. It therefore was quite natural and in complete consonance with our political policy to plan long before we entered Germany and Austria, or any part of Europe, for that matter, but most especially Germany, to gather up, to protect, and to repatriate, and to the extent that we could, to rehabilitate, these unfortunate people.

As a result of lengthy planning, the armies in the west, we feel, did a fairly creditable job with respect to these unfortunate people. The Anglo-American Allies gathered up—

The CHAIRMAN. Could I ask you a question at this point, for the purpose of getting the information into the record?

General HILLDRING. Yes, Senator.

The CHAIRMAN. Isn't it a fact that when you took over you found that a great number of the displaced persons were really unfit for travel, and what caused you to have to hold them so long was to get them in shape so you could repatriate them?

General HILLDRING. That is right, Senator.

The CHAIRMAN. That has not been made clear to the American people, and I think that ought to be mentioned here.

General HILLDRING. There were a great many displaced persons who had been worked so hard, who had been fed so little, who had been abused physically and psychologically, to the point where when they were repatriated they were not in physical or mental condition even to be moved from the localities in which they found them. I have made that point rather clear, Senator, in my long statement.

The Anglo-American Armies gathered up in the zones of Germany which they occupied about five and a half million of these displaced persons—about six and a half million, I should say. Of this number, we have repatriated, the Americans and British, to date, about five and a half million, leaving about a million in the three western zones of Germany.

Of this million that remain, about five hundred thousand of them are in the jurisdiction of the United States Army and in the care of the United States Army in the United States zone of Germany. They consist mainly of Poles, Balts, Yugoslavs, and Jewish displaced persons of various national origins, some of them German and some of them Polish, practically from every country in eastern Europe. That is our present displaced-persons job.

I want now, in fairness to the organization that has been of very great assistance to the Army, to mention the part which UNRRA has played in this displaced-persons program in Germany.

It has always been the attitude of the Army, Senator, that once the logistical problem of repatriating those who were repatriable—that is, the five and a half million I have mentioned earlier—the job was not primarily a military one nor primarily one which the Army could do as well as other agencies, because our task has proved to be, as we expected it would be by this time, largely an individual-case welfare problem, and I think it is no disparagement of the Army for me to say

that the Army does not consider it is particularly competent in that welfare project. Therefore, we early negotiated with UNRRA to take over this displaced-persons problem. That is what we call the core of the problem, the part we now have, and in preparation for that and to assist us in the earlier problem with respect to the larger number, we took UNRRA with us when we started this program on D-day.

UNRRA has contributed for this work nearly 5,000 individuals, and today the administration of our camps in the United States zone almost exclusively is being done under supervision and responsibility of the Army by UNRRA personnel. It was my hope and that of the Army that we would be able to transfer complete responsibility and authority to UNRRA for this job last October, and we negotiated a preliminary agreement with UNRRA, with the headquarters of UNRRA here in Washington, in anticipation of that transition.

However, when the UNRRA Conference in London last August—at which I was present—failed to appropriate or permit the use of UNRRA funds for the expenditure of supplies of any kind for any displaced persons in Germany, of course the Army had to retain the job because we do have, with respect to these displaced persons, the necessity for the importation of a considerable quantity of supplies.

The CHAIRMAN. What were the grounds on which UNRRA declined to take that over?

General HILLDRING. I can't really testify as an expert on that, Senator, because I was there simply needling the American delegates to approve the negotiation. I was not a member of the Conference.

I think, Senator—this is my personal view now, and if somebody want to say it isn't true, it probably isn't. I can't say it officially—but last August, I rather think that the attitude of the neighbors of Germany who were present at UNRRA was not at that time one of anxiety to help in Germany, for whatever reason they happened to be there; anybody. I think that was the obstacle that blocked the thing more than any other.

The CHAIRMAN. Weren't those people discriminating against some of their own nationals?

General HILLDRING. Yes; they were, Senator. I think, if you want to get an official answer to that, you might ask Will Clayton to give it to you, the Assistant Secretary of State. He was the head of our delegation there, and he can answer it authoritatively.

The CHAIRMAN. I have often been puzzled about that decision. I couldn't understand it.

General HILLDRING. I want to say for the record that the Army is most appreciative of UNRRA's assistance to us, and we are very grateful to them that they have provided the personnel they have to handle this job for us, which, without their help, would have been exceedingly difficult.

I am reminded of a story that exemplifies our difficulties in these camps, Senator. General Eisenhower told it to the House Foreign Relations Committee on last Thanksgiving morning when he was testifying for the UNRRA appropriation. General Eisenhower was visiting a DP camp, and when he drove in this particular morning he saw a great confusion; and he said to the people present: "I'm awfully sorry that my visit here causes so much commotion. Will you please tell them that I'm just another fellow and I feel very badly that my coming has been responsible for any excitement or confusion?"

Whereupon the camp director said to him: "General, I can ease your mind on that. Your coming has nothing to do with this running around you see. The reason for the disturbance is the fact that there were five babies born in camp last night." General Eisenhower said: "I couldn't help but feel quite a bit sorry for the little second lieutenant who was in charge of the 5,000 people and all their problems in that particular camp."

The CHAIRMAN. So you might say that the displaced person is a growing problem.

General HILLDRING. Yes, sir.

As you probably know, our displaced persons are divided into two general categories, and we treat them as two general categories. I am talking now about the ones we have now in the camps. There is the group of united nationals now in our zone who, for a variety of reasons, do not want to be repatriated. Those we still have, and that is by far the larger part of our present problem. They are Balts, Poles, Balkans, and other eastern Europeans, largely. Then there is a smaller group; they are not persecuted people; that is, they have not been persecuted. They were imported into Germany as slave laborers, and they worked for the Germans. Aside from that, they have not been persecuted. Then we have those who have been persecuted. That is a small number, about 45,000 at the present time out of the 500,000 that we have in our zone. They are of all nationalities, from all parts of eastern Europe, and some of them from Germany itself. Largely, they are Jews who have been persecuted because of their race and religion. By far, as you know, these are the people that deserve our best care, that arouse the greatest sympathy in the human being who sees their plight and who studies their record of the last 13 or 14 years, and it early occurred to us in the United States zone that it was one of the fundamental considerations in relation to their care that they be settled apart from the other displaced persons. It is not segregation; it is separate treatment that we are giving them, apart from the others, and we have for some time now settled, colonized, the persecuted apart from the rest of the displaced persons, and we do give them special treatment.

Of the remainder, we are in the process, and have been in the process for some months, of screening out those who have Nazi and Fascist backgrounds. I think it was while General Eisenhower was still in command at the theater that instructions were sent to him to begin the screening, which is a difficult job with a half million people, but the screening has proceeded quite far. The only thing we can do with these people is to screen them out and expel them from the displaced-persons camps.

I think that is a thumbnail sketch.

The CHAIRMAN. What does your screening process indicate as to the percentage, say, of the 500,000?

General HILLDRING. The numbers are rather small, percentagewise; not large. I would say well under 5 percent. A very small percentage.

The CHAIRMAN. Isn't that the reason that those people don't want to be repatriated?

General HILLDRING. It is pretty difficult to say, Senator.

The CHAIRMAN. For instance, a Pole, shall we say, who had been connected with the Nazi group, would hesitate to be repatriated into Poland, with the feeling in Poland the way it is. Aren't we placed on

the horns of this dilemma: We might repatriate a man just for purposes of execution, and that is kind of a cold-blooded decision to ask an American to make. Other people might make it, but it is kind of cold-blooded to ask an American to make a decision like that.

General HILDRING. That's right, sir. You are probably acquainted with our rule on repatriation. We do not forcibly repatriate a man unless it can be proved that he was apprehended in a German uniform; that is, if he fought with the Germans, if he was a traitor, if he was a collaborationist, or was guilty of treasonable conduct, whether in or out of uniform. We repatriate him whether he wants to go home or not, Senator; but in the absence of treason or active collaboration, we do not forcibly repatriate that fellow. But I don't think you can definitely say—though it is unquestionably true that the reason some of them don't want to go home is because they were pro-Nazi, but that isn't the only reason. I was there last August and September, and I looked into this question because I have to come up on the Hill here and explain this boarding house I am running over there. I have to have definite facts when I appear before these Military Committees.

I recognized that far back—the implications for me as a soldier who has to justify this business on the Hill. We had twice as many then as we have now. We had stopped repatriation largely because we didn't have candidates. A large number of these people were Poles, and the camp directors would tell me they are not Facists, they are not Nazis. As a matter of fact, many of them are just ordinary folks that are afraid of the present regime, and there is no basis for their fear of the present Polish regime.

We are now engaged in a campaign of education in which the Polish delegations assist, telling these people that they ought to go home. There isn't anything to be afraid of; they are not going to be shot. As a result of that educational campaign among these people, many of whom, Senator, are fine people, but illiterate and have had very few benefits—they are, for that reason, subject to emotional appeals. They respond to rumors around the camps.

With respect to those people—and I saw many of them—there wasn't any reason why they shouldn't have gone home. In the meantime many of them have gone home, and I think among those who still remain are many who have no real legitimate basis for fearing a return to their homeland. The trick is to convince them that there isn't any legitimate basis for that fear.

The CHAIRMAN. In other words, they have a feeling of uncertainty as to their future if they leave where they are?

General HILDRING. That is right, Senator.

The CHAIRMAN. And such feeling of security as they now have, they hesitate to give up?

General HILDRING. Many of them are quite candid in saying—and this is one of the problems that we must face in the months to come—some of them, I am sure—maybe I shouldn't say this, but it is the truth—many of them, I am sure, are staying, Senator, because they have never been any better off in their lives. They have never been as well off in their lives as they are today, and they are just reluctant to leave a condition which is entirely agreeable to them, in which they have no torments, no fears. UNRRA is pleasant to them. The United States Army is pleasant to them. They just decide in their

personal interest to stay where they are rather than take a long trip into an uncertain area.

The CHAIRMAN. That is the impression I got.

I want to ask you two or three questions, and you can answer them or not as you feel you should. I know there has been a great deal of discussion over the number of American troops as well as civilians that we have over in Germany, and I want to make it plain right at the outset that I believe we should maintain sufficient personnel over there to handle the job. Don't get the idea that I am insisting that we cut ourselves down. I think we should have enough over there to handle the job, to complete the program of denazification and to get the displaced persons replaced and repatriated and also to recapture the captured materials and to see that they are properly used. Do you think we could make economies in personnel and in cost to the Government by using displaced persons to help the authorities in the occupation of Germany, for example, say, in recovery and guarding of surplus property that we may pick up, things of that kind, and also in assisting the administration of camps?

General HILLDRING. Yes, Senator.

The CHAIRMAN. I noted when I was in Europe that we were using displaced Russians, in spots, to assist us in our quartermaster depots guarding German prisoners who were at work in the depots, and we were using displaced Poles for the same job, and they were doing a fine job.

General HILLDRING. Yes, sir.

The CHAIRMAN. They were apparently very proud and happy and working very nicely. Apparently, there was no resentment on the part of German prisoners of war to be handled by these people. That is the reason why I asked the question.

General HILLDRING. I don't think we should be too disturbed about their attitude in it.

The CHAIRMAN. Would it be safe, however, to use the persecuted displaced personnel for this job—the persecutees?

General HILLDRING. Yes; I am sure General McNarney, we in the War Department and OMGUS and USFET, would have no objection at all to using persecutees for guarding German prisoners or any other duties in the occupation. As a matter of fact, Senator, we have utilized for a variety of reasons the persecutees to the greatest extent we could, long before manpower questions, which is now our greatest crisis, as you know, obtained. We used displaced persons to the maximum number. We gave their employment by the Army and by German civilian agencies priority over the employment of Germans, for the reason that we wanted these unfortunate people to be employed for that sake itself. There isn't anything more debilitating, I think, to those people than to sit in a camp or to sit in a colony and twiddle their thumbs; so, before it was a question of manpower, we still emphasized the employment of displaced persons and gave them a priority, both in the Army and in UNRRA, above Germans, and that still is our program.

General Eisenhower—I happen to have a note here on General Eisenhower's view—as early as last September, informed his Army that in seeking individuals for employment by occupation forces, priority over Germans will be given always to displaced persons. I have the UNRRA policy here, which is stated in a little more elaborate

way, but follows the same general principle. Then, in addition to that, the UNRRA program contemplates the establishment of training projects in schools to further occupy the hands and minds of these people and to have as a definite objective an enhancement of their skill in the area and at the work they will have upon repatriation.

About 10 days ago, the War Department again, this time in the interest of the manpower problem, urged upon General McNarney again the maximum utilization of displaced persons in proper places; also asking especially to make work, if necessary, for the persecutees. In other words, to give them something to do.

I do know that Judge Rifkin is, with respect to the persecutees, especially devoting himself to this project of giving these people something to do, awaiting the day when they may be resettled.

The CHAIRMAN. I think there is an additional reason, General. My general impression of a lot of these persecutees was their dazed mental condition. They seemed to be in a haze, and some work would have to be done to get them out of that; something to set them thinking.

General HILLDRING. That is right.

The CHAIRMAN. Isn't that your general impression?

General HILLDRING. Exactly, sir. The point I am trying to make serves two purposes. It releases us on the manpower side. I think it achieves probably an equally meritorious objective in rinsing the minds of these unfortunate people of the fretting and worrying and memories of the anguish and fears of the future that certainly beset their minds.

The CHAIRMAN. It stops them from sitting down and thinking what they have gone through and makes them think of the future.

General HILLDRING. That's right, sir.

The CHAIRMAN. One other thing: We have been bombarded to a certain extent on the Senate floor and also through the United States mails by individuals and also by organizations like the Steuben Society about the fact that we are starving the German people in the European theater, the particular charge being leveled right at the United States of America. From the views that you had and from your information, can you tell us the true state of facts on that?

General HILLDRING. Yes; I can, Senator. The United States Army, as part of its project, was directed to prevent mass starvation and disease in Germany, and we have followed those instructions wherever we have gone in the world in this war and the last war. I can safely say and without hesitation, Senator, that there is no starvation today in the U. S. zone in Germany, which is the limit of our responsibility. I don't say that there isn't hunger somewhere or other. There is in every country in the world.

The CHAIRMAN. There has been in the United States.

General HILLDRING. Yes. The general situation in Germany today, with respect to food and feeding, is far above the starvation level. Every careful observer, official and unofficial, has borne out our observation and our findings in that regard, and we have not arrived at our judgment by superficial observation. We have had scientific examinations, samplings made of the German population, so this really is not the view or the impression or the judgment of any one person, but the result of a scientific approach, Senator, to the ascertainment of the real situation.

The CHAIRMAN. In other words, you feel that within our zone in Germany, the physical welfare of the people is not being damaged?

General HILLDRING. It is not being damaged. There is one qualification, Senator, which I would like to put in here for the future. The world food situation today is precarious. Whether or not between now and the harvest in the fall we are going to be able to maintain this level depends on our getting in the months to come the small quantity of food, almost entirely wheat, that we have on request for allocation. But that lies in the future and will be determined upon many factors; but as far as the present and the past are concerned, I can be most emphatic.

The CHAIRMAN. Do you think, General, that we will be able to get them to farm intensively in the area, to take care of summer crops? You know, you can do a lot with truck gardens to tide over until the fall.

General HILLDRING. We are doing everything we can by every means at our disposal to maximize food production in Germany this year. I think it has been said in the press—and this is true—that we are not going to get a bumper crop; that is, despite the authority we have and the pressures we are going to put on, we are not going to achieve as much of a crop in Germany as has been achieved in Germany before 1939. The reason for that is that the Germans deliberately robbed their soil of fertilizer for 7 years.

The CHAIRMAN. To make munitions?

General HILLDRING. Yes.

The CHAIRMAN. They used their nitrates for munitions?

General HILLDRING. They used their nitrates for munitions. The effect of that is apparent in the condition of the German soil; and this year, unfortunately, not only is food in shortage, in world shortage, but so is fertilizer; so we are not going to be able to rejuvenate the German fertility this year as we would like to, if we had an unlimited supply of fertilizer.

The CHAIRMAN. General, isn't it also a fact that with starved soil like that, even if you had a 7-year supply of fertilizer, you couldn't throw it all on at once? You have to take the normal flow into the soil, and it will take the same time to build it up, almost, as it took to starve it.

General HILLDRING. My food authorities say almost that, Senator, that you don't restore a soil overnight that has been starved for a long period.

The CHAIRMAN. You burn the wheat when you put too much nitrate on it.

General HILLDRING. That's right.

The CHAIRMAN. One question for the record: From your knowledge of the Potsdam agreement, does it in any way impose starvation on German people, either at present or in the future?

General HILLDRING. No, sir.

The CHAIRMAN. In other words, does the agreement say they must be starved?

General HILLDRING. No, sir.

The CHAIRMAN. I just wanted to get that in the record.

General HILLDRING. Quite the contrary, Senator. Potsdam says that the Four Powers still leave to Germany the means of achieving a level of standard of living not higher than the average of Europe,

except the USSR and the United Kingdom, which is quite the contrary of what has been said and what I have read about the Potsdam declaration.

The CHAIRMAN. General, I am going to ask you two or three questions, and don't feel embarrassed if you don't want to or haven't the material to answer them; just say so. One question is this: In screening these displaced persons, have you found much evidence that captured soldiers of countries like Poland, Yugoslavia, Czechoslovakia, who were really prisoners of war of Germany and should be treated as such, were used in the manufacture of munitions and the building of fortifications and the operation of coal mines and those various other things which are contrary to the Geneva Convention?

General HILLDRING. No, sir. I could look into it. I would have no objection to answering the question if I had the facts. I just haven't seen any.

The CHAIRMAN. I wonder if it would be too much trouble for you to make some investigations as to the civilian personnel?

General HILLDRING. No.

The CHAIRMAN. Because I ran into men who claimed that they were captured Russian soldiers and captured German soldiers who were in these slave labor camps. Of course, I had no way of verifying it, and only the records of the camps could verify it, and I couldn't do that. That would be a violation of the conventions of war. I think we should have information for the American public about those violations, because we already have information that our prisoners were used by Japan to mine coal, which is contrary. You remember the reason we were slow in operating mines was because we had to release German prisoners of war. We couldn't let them work while they were even in a parole status.

General HILLDRING. Yes, sir. I will be glad to investigate that and file all the information I can get with the committee.

The CHAIRMAN. In addition to the statement you make today.

General HILLDRING. Yes, sir; in addition to this statement. I have one other statement, Senator, I would like to make.

The CHAIRMAN. Go right ahead.

General HILLDRING. There is one other matter which you have asked me to take up today. As you know, the Army discovered in the U. S. zone in Germany the membership records of the Nazi Party and has taken them to Berlin for use by the four occupying powers in the administration of military government. Since the 20 tons of records were in a chaotic state when they were discovered, the job of putting them in order has taken a little time. As these records are reorganized, Army personnel is microfilming membership cards and related documents covering party memberships outside of Germany and Austria for transmittal to this country. The microfilms are being forwarded to the War Department as they are made and will continue to arrive until sometime in May, when we expect to have the last one filed.

At our request, Senator, the War Department has already furnished the subcommittee with the first two rolls of films. Today, I am delivering rolls 3, 4, and 5. At the request of the subcommittee, we are transmitting that portion of the material in these first five rolls which relates to the United States and Argentina. This work will be

completed and forwarded to the committee in a few days. It takes a little time to transcribe this German script into legible English.

I wish to emphasize, however, that the original records were made by Germans and not by the Army—in other words, these are German records and not U. S. Army records—and that the War Department cannot vouch for their accuracy. We just report to you where we got them and what they are.

The CHAIRMAN. In other words, it is the home lodge reports; they had so many members in a certain place.

General HILLDRING. That's right. The home lodge says they are the members, and that is what these records are, sir. Also, since the job of going through the entire file in Berlin has not yet been completed, the microfilms received here thus far may not cover any country completely.

Finally, we have found it very difficult to read the microfilms with the German script, in which many of the entries of the party membership cards are made, and cannot be sure that our transcription of this material is accurate in all cases. We are doing our level best to make it accurate.

The CHAIRMAN. General, it is my belief that the people of the United States should be advised as to what Germany's records show. I believe it is educational for the American public and is a warning of what might take place in the future. For that reason, I am going to order that these transcribed records be put in the subcommittee record as a part of your testimony, if you will permit.

General HILLDRING. I have no objection, sir.

The CHAIRMAN. It is so ordered.

(The records referred to will be printed as a separate document.)

The CHAIRMAN. I want to take this opportunity, General, to congratulate you upon your new job. From my past experience with you, I think you will do a bang-up job. I think that we have had need for some time for a man in this particular job.

I also want to express my appreciation for the committee for the way you cooperated with us all the way through in endeavoring to let the public know everything that is shown in the picture, so that no false propaganda could go out to hurt. That is one reason for the hearing this morning—to block false propaganda which is going on.

General HILLDRING. I appreciate, more than you realize, Senator, your sentiments, and I think I have only one regret, and that is that I shall, after 30 years, leave the Army and, with respect to the Congress, the two committees over here—the Military Affairs Committee on both sides of the Capitol—which, for the last 7 years, have been unbelievably generous to me.

(Off the record.)

The CHAIRMAN. I certainly want to thank you for appearing this morning, General.

I also want to make a part of the record this morning a report on displaced persons, which I have received from the American Jewish Conference.

(The report referred to follows:)

AMERICAN JEWISH CONFERENCE,
New York 17, N. Y., March 6, 1948.

Senator HARLEY M. KILGORE,

Chairman, Subcommittee on War Mobilization

Senate Military Affairs Committee, Washington, D. C.

DEAR SENATOR: I have the privilege of transmitting herewith the attached report from Louis Lipsky, chairman of the executive committee of the American Jewish Conference. This organization is an affiliated body of 63 national Jewish organizations who are banded together on the problems of displaced persons and immigration into Palestine.

The data presented in the attached is developed by on-the-spot observers who report conditions under which former persecutees live in the American zone. This material is submitted to your committee because we feel it is definitely related to the problems of occupation and denazification which your committee has been studying.

Yours respectfully,

DAVID R. WAHL,
Washington Secretary, American Jewish Conference.

MEMORANDUM SUBMITTED BY THE AMERICAN JEWISH CONFERENCE

1. Unless there is positive and immediate action looking to the rehabilitation and resettlement of the 100,000 displaced Jews now in Germany,¹ demoralization will set in, and there is every danger of a disaster which will shock the democratic world.

This alarming forecast is the substance of a message which was brought within the last fortnight to the American Jewish Conference by Dr. Zalman Grinberg, chairman of the Council of the Liberated Jews of Germany, who flew to this country to report to the Jews of America on the conditions under which the Jews of Europe now live.

Dr. Grinberg, a 33-year-old X-ray specialist and a survivor of the Kovno ghetto and the Dachau concentration camp, was recently elected spokesman for the displaced Jews in Germany. A scientist, his reports on the situation are dispassionate and objective and confirm other reports which have been transmitted to the American Jewish Conference by its UNRRA-accredited representatives abroad.

Dr. Grinberg is convinced that morale among the Jewish survivors of the Hitler camps is disintegrating. It is now 10 months since they were liberated by the Allied Armies, but for them liberation has proved a great disillusionment because they have neither firm ground under their feet nor a permanent roof over their heads. He believes that if the Jews in the camps are compelled to continue in a state of uncertainty over their future, and if no immediate steps are taken to make their lives useful and productive, there will be a wave of suicides and other uncontrollable acts of despair within the next few months.

2. The overwhelming majority of the Jews in the camps desire to emigrate to Palestine as quickly as possible. This has repeatedly been made clear by competent observers who have visited the camps and most recently in a poll conducted by UNRRA at the instance of the Anglo-American Committee of Inquiry. This poll showed that more than 98 percent of the Jews in the camps designated Palestine as their choice. The purpose of this memorandum is not to develop or elaborate on this fact but to emphasize that pending the removal of these Jews to Palestine, action must be taken to assure their rehabilitation in the interim period.

3. Idleness menaces the welfare of thousands of the camp inmates. Training opportunities and work must be found for them without delay, not only so that they may live normally but so that they may begin to train themselves for useful life wherever they may ultimately be settled. In this connection, Dr. Grinberg urges that farmland must be made available to the displaced persons. This has been done hitherto only on a very small scale.

Many other forms of useful occupation can be found for Jewish displaced persons. Many of them are people of high intellectual attainment and could be employed by military government and UNRRA. This would be of great advantage, not only to the displaced persons themselves but to the authorities,

¹ This is the total number of Jews in Germany. The number in the American zone is estimated at 80,000.

inasmuch as difficulty has been experienced in staffing governmental agencies in Germany with people thoroughly familiar with the war and peace aims of the United Nations.

4. Many of the displaced persons are suffering physically from the effects of their long confinement in Nazi concentration camps and are in need of medical attention. Dr. Grinberg, who is in charge of an all-Jewish hospital at St. Ottilien, calls attention to the fact that there is a pressing need for a number of all-Jewish hospitals, particularly for the care of tuberculosis and maternity cases. He points out that the Jewish displaced persons have a psychological horror of receiving medical treatment from German physicians because of the memory of past cruelties inflicted by Nazi "scientists." He believes that there are a number of Jewish medical men among the inmates of the camps capable of staffing these hospitals.

5. As a result of his meetings with high Allied authorities in Germany and in this country, Dr. Grinberg believes that there is a sympathetic understanding of the problem of Jewish displaced persons, but both he and representatives of the American Jewish Conference who have been in Germany report that the directives and policies fail frequently of implementation because of the "long distance" between headquarters and the camps. He believes, moreover, and in this he is fortified by the evidence of other observers, that there is a solicitude for the German economy which militates against a thorough and effective rehabilitation program. This has had a demoralizing effect on the Jewish displaced persons, who, having managed miraculously to emerge alive from the hell of Nazi concentration camps, and mindful that the wealth of 5,700,000 Jews was fed into that economy, were hopeful that they would be accorded a priority on the consideration and sympathy of the Allied liberators. Their reaction to their present condition was summed up very bluntly and tragically by Dr. Grinberg in the statement which he made to the delegates of the American Jewish Conference in Cleveland February 18th: "As matters now stand, it is better to be a conquered German than a liberated Jew."

6. In his statements to us, Dr. Grinberg has emphasized major rehabilitation needs. Many other proposals are contained in a report by Mr. Horace Marston, a representative of the American Jewish Conference, who visited 12 Jewish assembly centers in the American zone in Germany during the month of January. His report, dated February 1, and attached hereto, was transmitted to the American Jewish Conference by Mr. J. H. Whiting, Zone Director of UNRRA, with the comment: "Mr. Marston's excellent report should stimulate constructive action by all concerned with providing greater opportunities for the Jewish displaced persons in Germany."

7. It should be emphasized that the problem of the care of Jewish displaced persons in Germany is not only a humanitarian matter affecting the welfare of the displaced persons themselves but is also part of the denazification program in Germany. It is manifest that the German people are influenced by the attitude of Allied authorities. Any impression that the Allied authorities are lacking in consideration for the victims of Hitler gives encouragement and impetus to continuing dissemination of Nazi propaganda.

8. In addition to the problem of the care and rehabilitation of displaced Jews in Germany, there is the major problem of rescuing Jews who are the victims of anti-Semitism in Poland and other east European countries and who have been seeking entry into the American zone in Germany. It is estimated that there are now 60,000 Jews left in Poland and approximately 250,000 who are being repatriated from Russia to Poland. A number of Jews from Poland have already crossed into the American zone in Germany and have found sanctuary there. They owe their lives and their hopes for freedom primarily to the generosity of American officials. How many more will seek a haven there cannot be estimated, for Hitler's anti-Semitic propaganda is recrudescent despite governmental efforts to curb it. It is earnestly hoped that the authorities will continue to receive these refugees. The number of Jews who may seek to come is extremely small compared with the number—some 2,200,000—of Germans who are being transferred from Czechoslovakia and Poland to Germany. The number is also small when it is recalled that there were once 600,000 Jews in Germany and that today less than 10,000 of that 600,000 remain there. It is a paradox and one difficult to understand perhaps, in the light of the history of the last 15 years, that Jews should now be pleading to go to Germany as a haven of refuge. This is understandable, however, when it is recognized that these Jews do not desire to remain in Germany and seek no philanthropy or charity. It is because of their confidence

in American tradition and American dedication to the principles of liberty that they seek the shelter of the American flag, believing that with American assistance they will be enabled to find their way to their own homeland.

AMERICAN JEWISH CONFERENCE,
By LOUIS LIPSKY,
Chairman, Executive Committee.

MEMORANDUM

To: American Jewish Conference.

From: Horace Marston.

Subject: Jewish Displaced Persons, Assembly Centers in United States Third and Seventh Army Area, Germany.

INTRODUCTION

After thorough discussion of problems concerning the general welfare of Jewish displaced persons with UNRRA officials and representatives of cooperating voluntary agencies, 12 Jewish assembly centers were visited. Most of these centers are located in the United States Third Army area. The visits occurred between January 1 and January 25. Not less than one full day, and often more, was spent at every one of the major camps.

The following observations and recommendations are based on a number of assumptions:

1. The only real solution of the displaced-persons problem lies, of course, in the long-awaited decision on the final destination and disposition of displaced persons. Their continued uncertainty over their ultimate fate creates psychological injury and causes bitterness and frustration.

2. In spite of the recognized desirability of obtaining an immediate and definite solution on the final disposition of Jewish displaced persons—particularly the burning problem of free immigration into Palestine—there is the likelihood that displaced-persons operations will have to be continued for some time to come. Plans, therefore, must be made looking to continuance of displaced-persons centers and toward perfection of displaced-persons care.

3. Immediate physical needs, food and shelter, are being provided adequately at assembly centers and at transient camps. New centers have been opened throughout the last 2 months, and still others are being planned to fill the needs of persecutees who continue to arrive in the United States zone.

4. Considering the indescribable experiences of displaced persons and persecutees during the last years, provision only for physical needs is inadequate. Ample recognition must be given to the mental, moral, and psychological needs of these unfortunate people. From now on, therefore, the main emphasis of all plans and operations should be placed on the rehabilitation aspects of the displaced-persons program.

5. If the rehabilitation program is to be successful, it must be founded on thorough understanding of the psychological difficulties of the displaced persons which are the result of the occurrences of the last few years. They must be viewed with sympathy and good will. The obstacles which some displaced persons present to their own rehabilitation, the fact that work has become degrading to some, that certain menial tasks are not carried out willingly, the frustration and the absence of meaningful existence, must be fully understood. It is to the credit of the Jewish displaced persons that they have had the fortitude to survive at all, and more so that the overwhelming majority are eagerly awaiting a return to a normal and healthy life. The majority are willingly abiding by all laws and have set a high moral standard. It thus becomes essential to take care of the psychological needs of those who, with some effort, must be brought back to an appreciation of life itself and the concomitants of normal living in a normal society.

RECOMMENDATIONS

The following observations and suggestions are set forth to facilitate the necessary process of rehabilitation:

I. Education

There still exists a great dearth of trained teachers, of school books, and even the simplest implements, such as paper and pencils. Although in some camps

admirable efforts have been made toward the creation of a camp school system, there does not seem to exist an over-all plan, and the existence and execution of educational plans are left in the hands and depend upon the imagination of the individual camp committee and/or the educator attached to the UNRRA team.

There must be established immediately a coordinated over-all plan to fill the educational needs of young displaced persons on public- and high- school levels.

II. Special training

An important part of the educational program is the training of young displaced persons for special skills and trades. Creation of trade schools and workshops has also been left largely to the initiative of the individual camp committees and UNRRA teams; no coordinated effort to create equal facilities for all camps according to plan is noticeable.

The program of agricultural training, so vital to the preparation for successful settlement, particularly in Palestine, is still wholly insufficient. In spite of the existence of some very excellent farm sites, which were obtained with the help of the military government, there are still assembly centers for which such agricultural training facilities must be made available. In some instances, military government has shown what appears to be excessive anxiety for "the equilibrium" of German economy and has been reluctant or unwilling to make farm sites available. The unspeakable cruelties and injustices which were heaped on the unfortunate Jews of Europe, and which can never be repaired, should constantly be remembered as the guiding principle in vigorous and unstinting program of rehabilitation for the few who have survived.

III. Health

The United States Army and UNRRA can point with justified pride to the fact that, unlike the wake of the last war, there have been no epidemics since VE-day. The occurrence of new disease in the camps has been confined to a minimum. It should be pointed out, however, that the ravages of the last years have left a serious mark on the health of a large number of displaced persons. An essential part of a medical rehabilitation program, therefore, should be the provision of vitamins and vitamin-rich foods for the many who still suffer the consequences of long undernourishment, particularly children and adolescents, most of whom are anemic, many tubercular, and almost all of whom are susceptible to disease. Of special concern must be the great number of expected births. Ample preparations, which are not, as yet, noticeable, must be made for the care of babies and infants. In most camps there were no layettes, diapers, Pablum, etc. available.

Criticism, in some cases justified, has been leveled against administration and camp committees for apparent uncleanliness and insufficient sanitary care. It must be pointed out that the lack of cleanliness frequently is the result of lack of sanitary facilities and that almost without exception there appeared a dearth of Lysol, brooms, and other sanitation necessities; plumbing was found to be inadequate throughout.

IV. Clothing

Immediate clothing needs seem to have been met. But here, too, it must be pointed out that for a program of rehabilitation more than a warm coat is necessary. It was noticed in almost all camps that no underwear had been issued, that supplies of socks and stockings were either nonexistent or totally insufficient. Both men and women, in many cases, found it impossible to keep themselves clean for lack of necessary underclothing, shirts, etc. The unpardonable mistake of issuing gloves to displaced persons made of the blue-gray striped cloth of their concentration-camp garb must never recur. Part of total rehabilitation of displaced persons will be the issuance of clothing that will restore their self-respect.

V. Food

There can be no doubt that the caloric content of the food which displaced persons are given is sufficiently high to regain and maintain an appearance of physical strength. The camp diet, however, is exceedingly monotonous and very poorly balanced in that it contains a considerable preponderance of starchy foods. As a result of the diet of bread, potatoes, peas, and beans, many people have taken on weight in excess of that considered healthy. In all camps there was strong dissatisfaction with the Army directive of last November, according to which Red Cross parcels are to be counted as part of the total caloric content of food distributed. Prior to that date Red Cross parcels were the only items which

brought some variation into the exceedingly monotonous diet and provided some extra calories. In addition, canned stew, which is used in great quantity, is regarded as meat, whereas the actual meat content per can is no more than 20 percent, the rest being mostly potatoes.

In the matter of fresh food supplies there also appears to be excessive reluctance on the part of military government to requisition fresh food from German farmers, for the benefit of those who have been the victims of German aggression and who are sorely in need of physical rehabilitation.

VI. Mail and tracing

A serious impediment to the restoration of a feeling of normalcy is the inexplicable delay in opening the use of the mails to displaced persons free of hampering restrictions. Whereas Germans can correspond freely throughout Germany, the Jewish displaced persons whose few remaining relatives are scattered all over the world are subjugated to a rigid postal control. The only official route of regular communication open at present is with the United States. Throughout the displaced persons camps there is bitterness and inability to understand why such measures of discrimination, as far as use of the mails is concerned, are permitted to continue 9 months after liberation.

Another serious obstacle to mental and psychological rehabilitation is the continued disquietude of displaced persons who cannot make their existence known to relatives and friends of whose address or whereabouts they are uncertain. Coordinated tracing activities are lagging far behind existing needs.

VII. Case work

The Jewish displaced persons and persecutees who have spent the last years hiding in the woods, fighting as partisans, in the ghettos erected by Nazi conquerors, or, as most of them did, in the concentration camps facing death daily, still do not live under normal conditions in the assembly centers. Abnormal living has become habitual to many, and this presents serious problems.

A rehabilitation program which envisages a readjustment and return to normal habits and attitudes necessitates efforts by trained personnel to care for the mass of case work problems, which, under prevailing conditions, no welfare officer in a camp is able to handle. If UNRRA is unable to provide an able staff of trained case workers, the voluntary agencies must be urged to provide such people.

VIII. Recreation

Admirable efforts have been made in most camps to provide a measure of recreation. Theater groups, choirs, sports organizations, have been created. Yet there remains the need for common rooms, where young people can spend their evenings, where man and wife, who often live separately in dormitories, can meet. The establishment of common rooms would contribute in good measure to raise and maintain a high moral standard among the displaced persons.

The immediate creation of libraries is an absolute necessity. While cooperating agencies have announced their preparedness to provide books for libraries, at the time of the survey no library was found in any of the camps visited.

IX. Employment

The most important phase of the Jewish displaced persons rehabilitation program is a far-reaching employment program. The necessity for people to work is patent. In the case of the displaced persons, work can fill not only economic and productive needs but in equal measure can provide one of the most successful methods of therapy, as well as preparation for a useful life in the future. It will serve to restore self-respect, pride in work itself, and last, but not least, the skills which have been lost and not yet recovered. But work alone is not the answer to the question of the general sense of frustration and pauperization of the displaced persons, most of whom have lost all material possessions. The few who are working privately are being paid. They are fearful, however, that in accepting work outside the confines of the camp they might lose their identity as displaced persons and become submerged in the German community. They are also afraid that they might lose their chance for consideration in emigration plans.

The many who are working within the camps receive little or no incentive. Hardly any of them feel that they are doing constructive work. Everyone knows that he is not part of a normal economy.

It is herewith suggested that most serious and immediate consideration be given to the establishment of regular production centers within or without the camps, at abandoned factory sites, etc., and that normal productive work be organized. Such production schemes might be undertaken as cooperative ventures. They

should be made to serve the great need for goods of the displaced persons themselves. UNRRA should not only be in charge of the plans of production but might also become the purchaser of the products. The number of items which could be easily and profitably manufactured are too numerous to warrant specific mention.

It must be clearly understood that the conditions under which the Jewish displaced person is to work can only be such as will help him to appreciate work. All semblance of forced labor must be carefully avoided, nor can Jewish displaced persons be expected to work either with the Germans nor for the benefit of German economy.

It will be necessary also that methods be devised whereby payments to the individual worker may be made in bankable currency. The establishment of such a banking system would restore a healthy attitude toward gainful employment, providing that the displaced person is assured that his savings can be turned into currency of the respective country to which he will eventually emigrate. Objections previously raised by the Allied Control Commission to transfer of currency by displaced persons should be reexamined. A way must be found to tackle successfully the most urgent and essential part of the displaced persons rehabilitation program—lest displaced-person care be negated and confined to the barest necessities of physical survival.

In order to forestall possible unlawful monetary manipulations, a monetary control system such as is used by the United States Army could easily be initiated.

X. *Workmen's compensation*

Furthermore, a system of workmen's compensation, preferably with non-German insurance companies, must be worked out immediately for those who already are working in the camps.

XI. *Jewish displaced persons outside of camps*

It appears absolutely necessary that the responsibility for displaced persons living in communities be clearly defined. Current Army regulations establish responsibilities only for displaced persons at official centers so far as supplies and medical care are concerned. With hardly an exception, the displaced person in the community is left to shift for himself. In most cases his allocation of food ration is one grade higher than that of the average German. With the exception of that one advantage, he received no other care. (In a few localities UNRRA has been enabled to make additional services available.) A way must be found immediately to clarify UNRRA's responsibility for displaced persons in the community.

CONCLUSION

In the light of the foregoing, there appears the inescapable fact that the rehabilitation program designed to restore the physical, mental, and moral fiber of the displaced person and to prepare him for a useful life as a content and lawabiding citizen of the country of his ultimate settlement must be planned with courage, vision, and imagination.

The full development of such a program can be achieved only if a basis for full understanding is established between all participating organizations. It is herewith suggested that a permanent organization be created for the establishment of continued liaison between the United States Army, UNRRA, the voluntary cooperating agencies, and the various central committees of liberated Jews or other democratically elected representatives of displaced persons.

HORACE MARSTON.

FEBRUARY 1, 1946.

(Whereupon, the hearing adjourned at 11 a. m., subject to the call of the chairman.)

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